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Holmes County School District

Audited Financial Statements
For the Year Ended June 30, 2007

HOLMES COUNTY SCHOOL DISTRICT

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HOLMES COUNTY SCHOOL DISTRICT

FINANCIAL AUDIT REPORT



LYLES AND SINCLAIR

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MARY LYLES, CPA, MPA

INDEPENDENT AUDITOR'S REPORT

TRACEY SINCLAIR, CPA

ON

THE BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

Superintendent and School Board
Holmes County School District

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Holmes County School District, as of June 30, 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 February 13, 2009, on our consideration of the Holmes County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages five through eleven and the Budgetary Comparison Schedule and corresponding notes on pages 33 through 38 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Holmes County School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. In addition, the Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds is

presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Lyles & Sinclair, PLLC

Lyles and Sinclair, PLLC

February 13, 2009

HOLMES COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

HOLMES COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007

The discussion and analysis of HOLMES COUNTY SCHOOL DISTRICT'S financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 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 decreased \$-300,972.00 which represents -1.88% decrease from fiscal year 2006.
- General revenues account for \$19,829,692.00 in revenue, or 72.78% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$7,415,407.00 or 27.22% of total revenues.
- The District had \$27,546,071.00 in expenses; only \$7,415,407.00 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$19,829,692.00 were not adequate to provide for these programs.
- Among major funds, the General Fund had \$18,343,349.00 in revenues and \$18,929,766.00 in expenditures. The General Fund's fund balance decreased \$-703,113.00 under the prior year.
- Capital assets, net of accumulated depreciation, decreased by \$495,197.00
- Long-term debt decreased by \$722,337.00

OVERVIEW OF FINANCIAL STATEMENTS

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

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

HOLMES COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007

to a private-sector business. These statements are prepared using the accrual basis of accounting and include all assets and liabilities.

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

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

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

The government-wide financial statements can be found on pages 13-14 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

HOLMES COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007

funds and governmental activities. These reconciliations are on pages 16 and 18, respectively.

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

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

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20-31 of this report.

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional Major Special Revenue fund. This required supplementary information can be found on pages 32-38 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on page 40 of this report.

HOLMES COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$15,669,971 as of June 30, 2007.

By far the largest portion of the District's net assets (35.42%) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

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

The following table presents a summary of the District's net assets for the fiscal year ended June 30, 2007.

	<u>2007</u>	<u>2006</u>	<u>Percent Change</u>
Current assets	\$ 10,484,506	\$ 11,318,927	-07.37%
Other assets			
Capital assets, net	<u>12,340,665</u>	<u>12,835,862</u>	-03.86%
Total assets	<u>22,825,171</u>	<u>24,154,789</u>	-05.50%
Current liabilities	178,537	484,846	-63.18%
Long-term debt outstanding	<u>6,976,663</u>	<u>7,699,000</u>	-09.38%
Total liabilities	<u>7,155,200</u>	<u>8,183,846</u>	-12.57%
Net assets:			
Invested in capital assets, net of related debt	5,550,665	5,310,862	04.52%
Restricted	2,488,803	2,111,210	17.89%
Unrestricted	<u>7,630,503</u>	<u>8,548,871</u>	-10.74%
Total net assets	<u>\$ 15,669,971</u>	<u>\$ 15,970,943</u>	-01.88%

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

- The principal retirement of \$735,000 of long-term debt.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2007 were \$27,245,099.00. The total cost of all programs and services was \$27,546,071.00. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2007.

HOLMES COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007

	<u>2007</u>	<u>2006</u>	<u>Percent Change</u>
Revenues:			
Program revenues:			
Charges for Services	\$ 205,201	\$ 188,512	08.85%
Operating grants and Contributions	\$7,210,206	7,271,932	-00.85%
General revenues:			
Property Taxes	3,479,556	3,389,858	02.65%
Grants and contributions			
Not restricted	15,734,561	15,104,257	04.17%
16 th Section sources	484,618	529,645	-08.50%
Other	<u>130,957</u>	<u>45,019</u>	190.89%
Total revenues	<u>27,245,099</u>	<u>26,529,223</u>	2.70%
Expenses:			
Instruction	13,524,084	12,404,188	09.03%
Support services	11,193,039	9,492,642	17.91%
Non-instructional	2,448,804	2,604,518	-05.98%
Sixteenth section	63,519	44,475	42.82%
Interest on long-term liabilities	<u>316,625</u>	<u>353,994</u>	-10.56%
Total expenses	<u>27,546,071</u>	<u>24,899,817</u>	10.63%
Decrease in net assets	<u>\$ -300,972</u>	<u>\$ 1,629,406</u>	-118.47%

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

	<u>2007</u>		<u>2006</u>	
	<u>Total Expenses</u>	<u>Net(Expense) Revenue</u>	<u>Total Expenses</u>	<u>Net(Expense) Revenue</u>
Instruction	\$13,524,084	\$(11,380,412)	\$12,404,188	\$(10,440,919)
Support services	11,193,039	(8,277,205)	9,492,642	(6,216,443)
Non-instructional	2,448,804	(92,903)	2,604,518	(393,916)
Sixteenth section	63,519	(63,519)	44,475	(35,302)
Interest on long-term liabilities	<u>316,625</u>	<u>(316,625)</u>	<u>353,994</u>	<u>(352,793)</u>
Total expenses	<u>\$27,546,071</u>	<u>\$(20,130,664)</u>	<u>\$ 24,899,817</u>	<u>\$(17,439,373)</u>

- Net cost of governmental activities (\$20,130,664) was financed by general revenue, which is made up of primarily property taxes (\$3,479,556) and state revenue (\$15,253,100).
- Investment earnings accounted for \$387,219 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.

HOLMES COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$10,381,908.00, a decrease of \$535,671.00 due primarily to replacement of doors and renovations to the school facilities. \$9,367,635.00 or 90.23% 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 \$1,014,273.00 or 9.77% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was \$-703,113.00 a result of replacement of doors and renovations to the school facilities. The fund balance of Other Governmental Funds showed an increase of \$168,204.00.

BUDGETARY HIGHLIGHTS

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

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

A schedule showing the original and final budget amounts compared to the District's actual financial activity for the General Fund and other Major Special Revenue funds 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 \$20,209,804.00, including school buildings, busses, other school vehicles and furniture and equipment. This amount represents a decrease of \$100,902.00 from the previous year. Total accumulated depreciation as of June 30, 2007 was \$7,869,139.00 and total depreciation expense for the year was \$606,183.00, resulting in total net assets of \$12,340,665.00.

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

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

Debt Administration. At June 30, 2007, the District had \$6,976,663.00 in general obligation bonds and other long-term debt outstanding, of which \$760,000.00 is due within one year.

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

CURRENT ISSUES

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

The district has committed itself to financial excellence for many years. The millage for operating costs for the period ending June 30, 2007 decreased .20 mills from 43.87 mills for fiscal year 05-06 to 43.67 for fiscal year 06-07. 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.

The district's student enrollment for the year ending June 30, 2007 increased from 3,455 (ending period June 30, 2006) to 3,531 an increase of 76 students.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Holmes County School District, your P. O. Box 630 or 313 Olive Street, Lexington, MS 39095.

HOLMES COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS

HOLMES COUNTY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2007

Exhibit A

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	9,136,888
Investments	66,115
Due from other governments	869,902
Other receivables, net	35,653
Inventories	62,839
Restricted assets	313,109
Capital assets, net	12,340,665
Total assets	<u>22,825,171</u>
Liabilities	
Accounts payable and accrued liabilities	102,598
Interest payable on long-term liabilities	75,939
Long-term liabilities (Due within 1 year):	
Capital related liabilities	760,000
Long-term liabilities (Due beyond 1 year):	
Capital related liabilities	6,030,000
Non-capital related liabilities	186,663
Total liabilities	<u>7,155,200</u>
Net Assets	
Investment in capital assets (net of related debt)	5,550,665
Restricted net assets for:	
Expendable:	
School-based activities	1,613,308
Debt service	363,374
Forestry improvements	117,759
Unemployment benefits	81,003
Non-expendable:	
Sixteenth section	313,359
Unrestricted	7,630,503
Total net assets	<u>15,669,971</u>

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

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

Exhibit B

Functions/Programs	Program Revenues			Charges for Services	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Operating Grants and Contributions	Capital Grants and Contributions		Operating Grants and Contributions	Governmental Activities	
Governmental Activities:							
Instruction	13,524,084	141,426	2,002,246	0		(11,380,412)	
Support services	11,193,039	0	2,915,834	0		(8,277,205)	
Non-instructional	2,448,804	63,775	2,292,126	0		(92,903)	
Sixteenth section	63,519	0	0	0		(63,519)	
Interest and other expenses on long-term liabilities	316,625	0	0	0		(316,625)	
Total governmental activities	27,546,071	205,201	7,210,206	0		(20,130,664)	
General revenues:							
Taxes							
General purpose levies						3,338,672	
Debt service levies						140,884	
Unrestricted grants and contributions:							
State						15,253,100	
Federal						94,242	
Unrestricted investment earnings						387,219	
Sixteenth section sources						484,618	
Other						130,957	
Total general revenues						19,829,692	
Changes in net assets						(300,972)	
Net assets - beginning						15,970,943	
Net assets - ending						15,669,971	

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

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

Exhibit C

	GENERAL FUND	SUMMER FOOD SERVICE PROGRAM	TITLE I	IMPROVING TEACHER QUALITY	SPECIAL EDUCATION	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash and cash equivalents	7,410,550					2,039,447	9,449,997
Investments						66,115	66,115
Due from other governments	161,105	91,945	79,170	58,153	78,559	400,970	869,902
Due from other funds	262,212					78,885	341,097
Inventories						62,839	62,839
Total assets	7,833,867	91,945	79,170	58,153	78,559	2,648,256	10,789,950
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts Payable and accrued liabilities	16,701	13,311	9,111	388	35,043	28,044	102,598
Due to other funds		78,634	70,059	57,765	43,516	55,470	305,444
Total liabilities	16,701	91,945	79,170	58,153	78,559	83,514	408,042
Fund Balances:							
Reserve for:							
Inventories						62,839	62,839
Debt service funds						439,313	439,313
Forestry improvements						117,759	117,759
Unemployment benefits						81,003	81,003
Permanent funds						313,359	313,359
Unreserved:							
Undesignated, reported in:							
General fund	7,817,166						7,817,166
Special revenue funds						1,550,469	1,550,469
Total fund balances	7,817,166	0	0	0	0	2,564,742	10,381,908
Total liabilities and fund balances	7,833,867	91,945	79,170	58,153	78,559	2,648,256	10,789,950

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

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
 June 30, 2007

	<u>Amount</u>
Total fund balance - governmental funds	10,381,908
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets are used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$7,869,139.	12,340,665
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(6,976,663)
Governmental funds recognize interest on long-term debt when it becomes due, however the Statement of Net Assets recognizes interest as it accrues.	(75,939)
	<hr/>
Total net assets - governmental activities	<u><u>15,669,971</u></u>

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

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

	GENERAL FUND	SUMMER FOOD SERVICE PROGRAM	TITLE I	IMPROVING TEACHER QUALITY	SPECIAL EDUCATION	Other Governmental Funds	Total Governmental Funds
Revenues:							
Local sources	3,866,852	191	100		140	240,245	4,107,528
State sources	14,377,032					1,419,496	15,796,528
Federal sources	99,465	91,945	2,526,508	582,430	880,510	2,580,162	6,761,020
Sixteenth section sources						513,509	513,509
Total revenues	18,343,349	92,136	2,526,608	582,430	880,650	4,753,412	27,178,585
Expenditures							
Instruction	10,798,081		872,898	117,078	437,683	997,880	13,223,620
Support services	7,911,485	6,336	1,429,586	465,462	430,276	779,324	11,022,469
Non-instructional services	30,390	85,800	213,842	718	170	2,095,909	2,426,829
Sixteenth section						63,519	63,519
Debt service							
Principal	122,015					612,985	735,000
Interest	65,295					253,693	318,988
Other	2,500					2,695	5,195
Total expenditures	18,929,766	92,136	2,516,326	583,258	868,129	4,806,005	27,795,620
Excess (deficiency) of revenues over expenditures	(586,417)	0	10,282	(828)	12,521	(52,593)	(617,035)
Other Financing Sources (Uses):							
Insurance loss recoveries	66,051						66,051
Operating transfers in	322,737					518,694	841,431
Other financing sources						462	462
Operating transfers out	(505,484)		(10,489)		(12,248)	(313,210)	(841,431)
Total other financing sources (uses)	(116,696)	0	(10,489)	0	(12,248)	205,946	66,513
NET CHANGE IN FUND BALANCES	(703,113)	0	(207)	(828)	273	153,353	(550,522)
Fund Balances:							
July 1, 2006	8,520,279	0	207	828	(273)	2,396,538	10,917,579
Increase (Decrease) in reserve for inventory						14,851	14,851
June 30, 2007	7,817,166	0	0	0	(0)	2,564,742	10,381,908

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

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

Exhibit D-1

	<u>Amount</u>
Net change in fund balances - governmental funds	(550,522)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchase amounted to \$200,195 and the depreciation expense amounted to \$606,183.	(405,988)
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.	735,000
Expenses in the Statement of Activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds: Compensated Absences	(12,663)
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.	7,558
Gains and losses on sale or disposals of assets are not reported in the governmental funds, but are reported in the Statement of Activities.	(89,208)
Increases or decreases in reserve for inventory directly affects fund balance in the fund statements, but is adjusted through expenses in the Statement of Activities.	14,851
	<hr/>
Change in net assets of governmental activities	<u><u>(300,972)</u></u>

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

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

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	796,009
Due from other governments	
Total assets	<u><u>796,009</u></u>
Liabilities	
Accounts payable and accrued liabilities	737,751
Due to other funds	35,653
Due to student clubs	22,605
Total liabilities	<u><u>796,009</u></u>

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

HOLMES COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 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 5 member board to which each member was elected by the citizens of each defined county district.

B. Basis of Presentation.

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

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

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.

HOLMES COUNTY SCHOOL DISTRICT

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

Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Program revenues on the Statement of Activities consist primarily of state appropriations and federal awards.

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

The school district reports the following major governmental funds:

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

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

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

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

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

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

Additionally, the school district reports the following fund types:

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.

HOLMES COUNTY SCHOOL DISTRICT

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

FIDUCIARY FUNDS

Private-purpose Trust Funds - Private-purpose trust funds are used to report all trust arrangements, other than those properly reported elsewhere, under which the principal and income benefit individuals, private organizations or other governments.

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 Classification

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 an original maturity greater than three months when acquired.

Investments are reported at fair value.

H. Inventories and Prepaid Items.

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

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

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

HOLMES COUNTY SCHOOL DISTRICT

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

I. Capital Assets.

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

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

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

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

	<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 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.

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

HOLMES COUNTY SCHOOL DISTRICT

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

payables at year-end.

L. Equity Classifications.

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

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

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

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

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

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

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

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 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.

HOLMES COUNTY SCHOOL DISTRICT

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

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 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.

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 \$9,449,997 and \$796,009, respectively. The carrying amount of deposits reported in the government-wide financial statements was: cash and cash equivalents - \$9,136,888 and restricted assets - \$313,109. The restricted assets of \$313,109 represent the cash of the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$11,389,263.

HOLMES COUNTY SCHOOL DISTRICT

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

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 \$11,389,263 was exposed to custodial credit risk.

Investments.

As of June 30, 2007, the district had the following investments. All investments are in an internal investment pool.

<u>Investment Type</u>	<u>Maturities (in years)</u>	<u>Fair Value</u>	<u>Rating</u>
Hancock Horizon U. S. Treasury securities Mmkt fund	Less than 1	\$ 66,115	AAAm
Total Investments		<u>\$ 66,115</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. As of June 30, 2007, the district did not have any investments to which this would apply.

Concentration of Credit Risk. Disclosures of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2007, the district had the following investments:

<u>Issuer</u>	<u>Fair Value</u>	<u>% of Total Investments</u>
Hancock Bank	\$ 66,115	100%
	<u>\$ 66,115</u>	

HOLMES COUNTY SCHOOL DISTRICT

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

(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	\$ 262,212	
Summer Feeding Program		78,634
Title I		70,059
Improving Teacher Quality		57,765
Special Education		43,516
Other governmental funds	78,885	55,470
Total	<u>341,097</u>	<u>305,444</u>
Fiduciary Funds		<u>35,653</u>
Total	<u>\$ 341,097</u>	<u>341,097</u>

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

B. Transfers In/Out.

	<u>Transfer In</u>	<u>Transfers Out</u>
Governmental Funds:		
General Fund	\$ 322,737	505,484
Title I		10,489
Special Education		12,248
Other governmental funds	518,694	313,210
Total	<u>841,431</u>	<u>841,431</u>
Total	<u>\$ 841,431</u>	<u>841,431</u>

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

HOLMES COUNTY SCHOOL DISTRICT

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

(4) 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	\$ 57,310					57,310
Construction in progress						0
Total non-depreciable capital assets	<u>57,310</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>57,310</u>
<u>Depreciable capital assets:</u>						
Buildings	13,979,399		52,526			13,926,873
Building improvements	583,157					583,157
Improvements other than buildings	1,930,514					1,930,514
Mobile equipment	2,782,456	137,477	159,081			2,760,852
Furniture and equipment	977,870	62,718	89,490			951,098
Total depreciable capital assets	<u>20,253,396</u>	<u>200,195</u>	<u>301,097</u>	<u>0</u>	<u>0</u>	<u>20,152,494</u>
<u>Less accumulated depreciation for:</u>						
Buildings	4,534,714	237,536	19,960			4,752,290
Building improvements	121,448	23,326				144,774
Improvements other than buildings	557,020	77,221				634,241
Mobile equipment	1,527,032	181,719	107,258			1,601,493
Furniture and equipment	734,630	86,381	84,670			736,341
Total accumulated depreciation	<u>7,474,844</u>	<u>606,183</u>	<u>211,888</u>	<u>0</u>	<u>0</u>	<u>7,869,139</u>
Total depreciable capital assets, net	<u>12,778,552</u>	<u>(405,988)</u>	<u>89,209</u>	<u>0</u>	<u>0</u>	<u>12,283,355</u>
Governmental activities capital assets, net	<u>\$ 12,835,862</u>	<u>(405,988)</u>	<u>89,209</u>	<u>0</u>	<u>0</u>	<u>12,340,665</u>

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 321,291
Support services	249,080
Non-instructional	<u>35,812</u>
Total Depreciation Expense	<u>\$ 606,183</u>

HOLMES COUNTY SCHOOL DISTRICT

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

(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	Adjustments	Balance 6-30-2007	Amounts due within one year
A. General obligation bonds payable	\$ 2,135,000		390,000		1,745,000	400,000
B. Limited obligation bonds Payable	5,390,000		345,000		5,045,000	360,000
C. Compensated absences payable	174,000	12,663			186,663	
Total	<u>\$ 7,699,000</u>	<u>12,663</u>	<u>735,000</u>	<u>0</u>	<u>6,976,663</u>	<u>760,000</u>

A. General obligation bonds payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General obligation bonds, Series 2003A	1.4%-2.95%	07-01-2003	04-15-2008	\$ 610,000	135,000
General obligation bonds, Series 2003, Refunding	1.4%-4.4%	07-01-2003	04-15-2016	2,580,000	1,610,000
Total				<u>\$ 3,190,000</u>	<u>1,745,000</u>

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

Year Ending	Principal	Interest	Total
2008	\$ 400,000	62,388	462,388
2009	260,000	50,587	310,587
2010	260,000	42,138	302,138
2011	230,000	33,038	263,038
2012	210,000	24,412	234,412
2013 - 2016	385,000	32,063	417,063
Total	<u>\$ 1,745,000</u>	<u>244,626</u>	<u>1,989,626</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 1.7% of property assessments as of October 1, 2006. This debt will be retired from the Debt Service Fund.

HOLMES 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:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
State aid capital Improvement	Varies	04-01-1998	04-20-2018	\$ 7,200,000	5,045,000
Total				\$ 7,200,000	5,045,000

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	\$ 360,000	231,085	591,085
2009	380,000	215,245	595,245
2010	395,000	198,145	593,145
2011	415,000	179,975	594,975
2012	435,000	160,470	595,470
2013 – 2017	2,490,000	478,097	2,968,097
2018 – 2022	570,000	25,650	595,650
Total	\$ 5,045,000	1,488,667	6,533,667

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

L. 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

HOLMES COUNTY SCHOOL DISTRICT

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

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 \$1,572,988, \$1,347,969 and \$1,326,435, respectively, which equaled the required contributions for each year.

(7) Sixteenth Section Lands.

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

Year Ending June 30	Amount
2008	\$ 163,840
2009	163,840
2010	110,103
2011	375
2012	375
2013 - 2017	1,875
2018 - 2022	1,875
2023 - 2027	1,500
2028 - 2032	1,275
Thereafter	975
Total	\$ <u>446,033</u>

(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 School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 121 school districts and one community college and covers risks of loss arising from injuries to the member's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by BancorpSouth Bank in Jackson. The funds in the trust account are used to pay any claim up to \$700,000. For a claim exceeding \$700,000, MSBAWCT has insurance which will pay the excess 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 member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

HOLMES COUNTY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

HOLMES COUNTY SCHOOL DISTRICT
 Budgetary Comparison Schedule
 GENERAL FUND
 For the Year Ended June 30, 2007

	Budgeted Amounts		Actual (GAAP Basis)	Variance Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	3,260,302	3,836,040	3,866,852	575,738	30,812
State sources	13,626,233	14,370,255	14,377,032	744,022	6,777
Federal sources	90,000	99,465	99,465	9,465	0
Total revenues	16,976,535	18,305,760	18,343,349	1,329,225	37,589
Expenditures:					
Instruction	12,756,653	10,952,348	10,798,081	1,804,305	154,267
Support services	8,279,342	8,477,993	7,911,485	(198,651)	566,508
Non-instructional services	78,661	47,416	30,390	31,245	17,026
Sixteenth section	0	0	0	0	0
Facilities acquisition and construction	212,000	222,276	0	(10,276)	222,276
Debt service:					
Principal	122,015	122,015	122,015	0	0
Interest	65,295	65,295	65,295	0	0
Advance refunding escrow	0	0	0	0	0
Other	3,500	3,500	2,500	0	1,000
Total expenditures	21,517,466	19,890,843	18,929,766	1,626,623	961,077
Excess (deficiency) of revenues over expenditures	(4,540,931)	(1,585,083)	(586,417)	2,955,848	998,666
Other Financing Sources (Uses):					
Insurance loss recoveries	0	66,051	66,051	66,051	0
Operating transfers in	2,229,181	323,001	322,737	(1,906,180)	(264)
Operating transfers out	(1,817,919)	(1,015,209)	(505,484)	802,710	509,725
Total other financing sources (uses)	411,262	(626,157)	(116,696)	(1,037,419)	509,461
NET CHANGE IN FUND BALANCES	(4,129,669)	(2,211,240)	(703,113)	1,918,429	1,508,127
Fund Balances:					
July 1, 2006	0	8,520,279	8,520,279	8,520,279	0
June 30, 2007	(4,129,669)	6,309,039	7,817,166	10,438,708	1,508,127

HOLMES COUNTY SCHOOL DISTRICT
 Budgetary Comparison Schedule
 SUMMER FOOD SERVICE PROGRAM
 For the Year Ended June 30, 2007

	Budgeted Amounts		Actual (GAAP Basis)	Variance Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources		191	191	191	0
Federal sources	0	120,045	91,945	120,045	(28,100)
Sixteenth section sources	0	0	0	0	0
Total revenues	0	120,236	92,136	120,236	(28,100)
Expenditures:					
Instruction	0	0	0	0	0
Support services	0	6,336	6,336	(6,336)	0
Non-instructional services	0	72,489	85,800	(72,489)	(13,311)
Sixteenth section	0	0	0	0	0
Facilities acquisition and construction	0	0	0	0	0
Debt service:					
Principal	0	0	0	0	0
Interest	0	0	0	0	0
Advance refunding escrow	0	0	0	0	0
Other	0	0	0	0	0
Total expenditures	0	78,825	92,136	(78,825)	(13,311)
<i>Excess (deficiency) of revenues over expenditures</i>	0	41,411	0	41,411	(41,411)
Other Financing Sources (Uses):					
Operating transfers in	0	0	0	0	0
Other financing sources	0	0	0	0	0
Operating transfers out	0	0	0	0	0
Payment to refunded bond escrow agent	0	0	0	0	0
Other financing uses	0	0	0	0	0
Total other financing sources (uses)	0	0	0	0	0
NET CHANGE IN FUND BALANCES	0	41,411	0	41,411	(41,411)
Fund Balances:					
July 1, 2006	0	0	0	0	0
June 30, 2007	0	41,411	0	41,411	(41,411)

HOLMES COUNTY SCHOOL DISTRICT
 Budgetary Comparison Schedule
 TITLE I
 For the Year Ended June 30, 2007

	Budgeted Amounts		Actual (GAAP Basis)	Variance Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
	Revenues:				
Local sources	0	100	100	100	0
Federal sources	3,844,838	4,051,743	2,526,508	206,905	(1,525,235)
Sixteenth section sources	0	0	0	0	0
Total revenues	3,844,838	4,051,843	2,526,608	207,005	(1,525,235)
Expenditures:					
Instruction	2,360,458	1,790,125	872,898	570,333	917,227
Support services	1,321,957	2,000,152	1,429,586	(678,195)	570,566
Non-instructional services	162,881	250,773	213,842	(87,892)	36,931
Sixteenth section	0	0	0	0	0
Facilities acquisition and construction	0	0	0	0	0
Debt service:					
Principal	0	0	0	0	0
Interest	0	0	0	0	0
Advance refunding escrow	0	0	0	0	0
Other	0	0	0	0	0
Total expenditures	3,845,296	4,041,050	2,516,326	(195,754)	1,524,724
<i>Excess (deficiency) of revenues over expenditures</i>	<i>(458)</i>	<i>10,793</i>	<i>10,282</i>	<i>11,251</i>	<i>(511)</i>
Other Financing Sources (Uses):					
Operating transfers out	0	(11,000)	(10,489)	(11,000)	511
Total other financing sources (uses)	0	(11,000)	(10,489)	(11,000)	511
NET CHANGE IN FUND BALANCES					
	(458)	(207)	(207)	251	0
Fund Balances:					
July 1, 2006	0	207	207	207	0
June 30, 2007	(458)	0	0	458	0

HOLMES COUNTY SCHOOL DISTRICT
 Budgetary Comparison Schedule
 IMPROVING TEACHER QUALITY
 For the Year Ended June 30, 2007

	Budgeted Amounts		Actual (GAAP Basis)	Variance Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
	Revenues:				
Federal sources	1,024,206	1,008,309	582,430	(15,897)	(425,879)
Sixteenth section sources	0	0	0	0	0
Total revenues	1,024,206	1,008,309	582,430	(15,897)	(425,879)
Expenditures:					
Instruction	1,024,206	469,770	117,078	554,436	352,692
Support services	0	530,317	465,462	(530,317)	64,855
Non-instructional services	0	9,050	718	(9,050)	8,332
Sixteenth section	0	0	0	0	0
Facilities acquisition and construction	0	0	0	0	0
Debt service:					
Principal	0	0	0	0	0
Interest	0	0	0	0	0
Advance refunding escrow	0	0	0	0	0
Other	0	0	0	0	0
Total expenditures	1,024,206	1,009,137	583,258	15,069	425,879
<i>Excess (deficiency) of revenues over expenditures</i>	0	(828)	(828)	(828)	0
Other Financing Sources (Uses):					
Operating transfers in	0	0	0	0	0
Other financing sources	0	0	0	0	0
Operating transfers out	0	0	0	0	0
Total other financing sources (uses)	0	0	0	0	0
NET CHANGE IN FUND BALANCES	0	(828)	(828)	(828)	0
Fund Balances:					
July 1, 2006	0	828	828	828	0
June 30, 2007	0	0	0	(0)	0

HOLMES COUNTY SCHOOL DISTRICT
 Budgetary Comparison Schedule
 SPECIAL EDUCATION
 For the Year Ended June 30, 2007

	Budgeted Amounts		Actual (GAAP Basis)	Variance Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	0	140	140	140	0
Federal sources	919,340	973,144	880,510	53,804	(92,634)
Sixteenth section sources	0	0	0	0	0
Total revenues	919,340	973,284	880,650	53,944	(92,634)
Expenditures:					
Instruction	413,569	453,607	437,683	(40,038)	15,924
Support services	481,376	497,338	430,276	(15,962)	67,062
Non-instructional services	10,000	10,000	170	0	9,830
Sixteenth section	0	0	0	0	0
Facilities acquisition and construction	0	0	0	0	0
Debt service:					
Principal	0	0	0	0	0
Interest	0	0	0	0	0
Advance refunding escrow	0	0	0	0	0
Other	0	0	0	0	0
Total expenditures	904,945	960,945	868,129	(56,000)	92,816
<i>Excess (deficiency) of revenues over expenditures</i>	<i>14,395</i>	<i>12,339</i>	<i>12,521</i>	<i>(2,056)</i>	<i>182</i>
Other Financing Sources (Uses):					
Operating transfers in	0	0	0	0	0
Other financing sources	0	0	0	0	0
Operating transfers out	(14,395)	(12,339)	(12,248)	2,056	91
Other financing uses	0	0	0	0	0
Total other financing sources (uses)	(14,395)	(12,339)	(12,248)	2,056	91
NET CHANGE IN FUND BALANCES	(0)	(0)	273	0	273
Fund Balances:					
July 1, 2006	0	(273)	(273)	(273)	0
June 30, 2007	(0)	(273)	(0)	(273)	273

HOLMES COUNTY SCHOOL DISTRICT
Notes to the 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 and each major Special Revenue Fund consistent with accounting principles generally accepted in the United States of America.

(3) Individual Fund Disclosures.

The Summer Food Service Program has an excess of expenditures over budget in the amount of \$13,311. The fund with the excess of expenditures over budget is not in violation of state law since the excess resulted from auditor's adjustments.

HOLMES COUNTY SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

HOLMES 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	123,885
Child nutrition cluster:		
School breakfast program	10.553	671,309
National school lunch program	10.555	1,292,308
Summer food service program for children	10.559	96,073
Total child nutrition cluster		<u>2,059,690</u>
Total U.S. Department of Agriculture		<u>2,183,575</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	94,242
Total Federal Communications Commission		<u>94,242</u>
 <u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	2,547,779
Career and technical education - basic grants to states	84.048	73,880
Safe and drug-free schools and communities - state grants	84.186	52,864
State grants for innovative programs	84.298	2,718
Education technology state grants	84.318	68,128
Comprehensive school reform demonstration	84.332	52,147
Teacher quality enhancement grants	84.336	4,580
Transition to teaching	84.350	40
Rural education	84.358	144,052
Improving teacher quality state grants	84.367	585,276
Grants for state assessments and related activities	84.369	13,865
Total		<u>3,545,329</u>

Special education cluster:		
Special education - grants to states	84.027	882,045
Special education - preschool grants	84.173	36,109
Total special education cluster		<u>918,154</u>
Total passed-through Mississippi Department of Education		<u>4,463,483</u>
Total U.S. Department of Education		<u>4,463,483</u>
Total for All Federal Awards		<u>\$ 6,741,300</u>

NOTES TO SCHEDULE

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

Holmes County School District
 Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
 For the Fiscal Year Ending June 30, 2007

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 19,578,261	11,979,796	549,525	1,791,692	5,257,248
Other	8,217,359	2,427,564	425,512	29,918	5,334,365
Total	<u>\$ 27,795,620</u>	<u>14,407,360</u>	<u>975,037</u>	<u>1,821,610</u>	<u>10,591,613</u>
 Total number of students *	 <u>3,531</u>				
Cost per student	\$ <u>7,872</u>	<u>4,080</u>	<u>276</u>	<u>516</u>	<u>3,000</u>

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

Instruction and Other Student Instructional Expenditures - includes the activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teachers aides or classroom assistants of any type. (all the 1000, 2100, & 2200 functional codes).

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

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

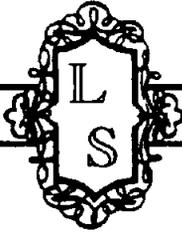
Other - includes all expenditure functions not included in Instruction or Administration Categories.

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

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

HOLMES COUNTY SCHOOL DISTRICT

REPORTS ON INTERNAL CONTROLS AND COMPLIANCE



LYLES AND SINCLAIR

(601) 981-5707

CERTIFIED PUBLIC ACCOUNTANTS

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

MARY LYLES, CPA, MPA

TRACEY SINCLAIR, CPA

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

Superintendent and School Board
Holmes County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Holmes County School District as of and for the year ended June 30, 2007, which collectively comprise Holmes County School District's basic financial statements and have issued our report thereon dated February 13, 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 through 07-5 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 Finding 07-1 and 07-3 to be material weaknesses.

Compliance and Other Matters

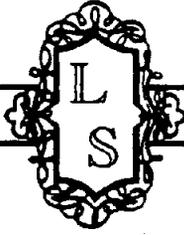
As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material 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 February 13, 2009, which is included in this report.

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

Handwritten signature in cursive script that reads "Lyles + Sinclair, PLLC".

Lyles and Sinclair, PLLC

February 13, 2009



LYLES AND SINCLAIR

(601) 981-5707

CERTIFIED PUBLIC ACCOUNTANTS

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MARY LYLES, CPA, MPA

INDEPENDENT AUDITOR'S REPORT

TRACEY SINCLAIR, CPA

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

Superintendent and School Board
Holmes County School District

Compliance

We have audited the compliance of the Holmes County School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 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, Holmes County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the Holmes County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the school district's internal control over compliance with 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.

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

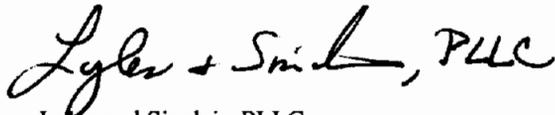
A control deficiency in an entity's internal control over compliance exists when the design or operation of a

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 programs 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 consider the deficiency in the internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as Finding 07-6 to be a significant deficiency.

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 consider the significant deficiency described in the accompanying Schedule of Findings and Questioned Costs as Finding 07-6 to be a material weakness.

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

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.



Lyles and Sinclair, PLLC

February 13, 2009

HOLMES COUNTY SCHOOL DISTRICT

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



LYLES AND SINCLAIR

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MARY LYLES, CPA, MPA INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH TRACEY SINCLAIR, CPA
STATE LAWS AND REGULATIONS

Superintendent and School Board
Holmes County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Holmes County School District as of and for the year ended June 30, 2007, which collectively comprise Holmes County School District's basic financial statements and have issued our report thereon dated February 13, 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 \$37,823 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:

Finding

As reported in the prior year's report, we noted 16th section revenue received and deposited directly into the bank account without a receipt being written. An effective internal control system dictates that all monies received are receipted timely. Funds could be lost or not recorded in the financial records timely if not properly receipted.

Recommendation

We recommend the district implement procedures to ensure that all payments are handled appropriately.

School District's Response

The district has procedures in place to handle receipting of funds properly and will work at making sure those procedures are implemented properly.

Finding

We noted payments to vendors that exceeded 45 days from the date of the invoice. Sections 31-7-305, Mississippi Code Ann. (1972), requires payment no later than forty-five (45) days after receipt of the invoice and receipt, inspection and approval of the goods or services. If payment of an invoice is not made within forty-five (45) days after receipt of the invoice and receipt, inspection and approval of the goods and services, the district shall be liable to the vendor, in addition to the amount of the invoice, for interest at a rate of one and one-half percent (1-1/2 %) per month or portion thereof on the unpaid balance from the expiration of such forty-five-day period until such time as the invoice is made to the vendor. This oversight causes the district to be in violation of state statutes and increases its liability on invoices not paid timely.

Recommendation

We recommend the district establish procedures to ensure compliance with Sections 31-7-305, Miss. Code Ann. (1972), which requires timely payment of invoices.

School District's Response

The district has procedures in place to ensure compliance with Sections 31-7-305, Miss. Code Ann (1972), however; the district will review the policy and add additional steps in ensuring compliance with the Sections 31-7-305.

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

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



Lyles and Sinclair, PLLC

February 13, 2009

HOLMES COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

HOLMES COUNTY SCHOOL DISTRICT

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

Section 1: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

- | | | |
|-----|--|-------------|
| 4. | Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 5. | Internal control over major programs: | |
| a. | Material weakness(es) identified? | Yes |
| b. | Significant deficiency(ies) 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? | Yes |
| 7. | Federal programs identified as major programs: | |
| a. | Title I Grants to Local Educational Agencies
CFDA # 84.010 | |
| b. | Special Education Cluster
CFDA # 84.027
CFDA # 84.173 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | No |
| 10. | Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____,315(b) of OMB Circular A-133? | Yes |

Section 2: Financial Statement Findings

07-1. Finding

The district did not prepare its notes to the financial statements. An effective system of internal control over financial reporting should ensure that personnel are capable of preparing notes to the financial statements in accordance with generally accepted accounting principles and possess the necessary accounting expertise to prevent, detect and correct a potential misstatement in the notes. For the current fiscal year, the district chose to have the auditor to prepare the notes to the

HOLMES COUNTY SCHOOL DISTRICT

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

financial statements. Without adequate controls in place, the risk of inadequate information being reported increases.

Recommendation

We recommend the district implement controls to ensure that personnel prepare and review notes to the financial statements in accordance with generally accepted accounting principles.

07-2. Finding

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

Recommendation

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

07-3. Finding

The district did not properly accrue expenditures for the year ended June 30, 2007. An effective internal control system consists of procedures to initiate, record, process, summarize and report financial transactions accurately. The district's closing procedures failed to identify all of the items that should have been recorded as payables. Failure to accrue the expenditures causes the liability to be understated.

Recommendation

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

07-4. Finding

As reported in the prior year's report, it was noted that the club sponsor of the USA Skills club, a vocation education club, was unable to verify or support the balance maintained by the district's central office for this club. It was also noted that as funds were collected by this club, the funds were not deposited into the bank account for the club, as established by the district for this purpose, but instead, collected funds were paid directly to the national affiliate, using a money order.

Recommendation

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

07-5. Finding

The payroll clearing cash account was not properly reconciled at June 30, 2007. Also, subsidiary ledger balances for some of the activity fund accounts did not agree with the general ledger. An effective internal control system consists of procedures to initiate, record, process, summarize and report financial

HOLMES COUNTY SCHOOL DISTRICT

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

transactions accurately. These instances appear to be caused by human error; however, the errors could result in the financial statements being misstated.

Recommendation

The district should implement procedures to ensure that all cash accounts of the district are properly reconciled to the district's general ledger at the end of each month and that the district's subsidiary ledger accounts agree with the general ledger.

Section 3: Federal Award Findings and Questioned Costs

07-6. Finding

Compliance Requirements: Activity Allowed or Unallowed

Program: Special Education Cluster - CFDA# 84.027 and

CFDA# 84.173

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

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

-A lack of the proper handling of discipline/behavior problems throughout the district

-A lack of the proper handling of students suspected of having an emotional disability

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

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

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

Recommendation

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

HOLMES COUNTY SCHOOL DISTRICT

AUDITEE'S CORRECTIVE ACTION PLAN

POWELL RUCKER
SUPERINTENDENT

BENNY MONTGOMERY
DEPUTY SUPERINTENDENT
FEDERAL PROGRAMS
OPERATIONS

ARNOLD HARRIS
ASSISTANT SUPERINTENDENT
CURRICULUM / INSTRUCTION



HOLMES COUNTY SCHOOL DISTRICT

"Our Children's Future Depends On Us"

BOARD MEMBERS

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

AUDITEE'S CORRECTIVE ACTION PLAN

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

Findings

Corrective Action Plan Details

2007-1

a. Name of Contact Person Responsible for Corrective Action:

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

b. Corrective Action Planned:

The business manager will ensure notes to the financial are done according in accordance with generally accepted accounting principles

c. Anticipated Completed Date:

June 30, 2009

CORRECTIVE ACTION PLAN CONTINUES:

2007-2

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

Name: Kathy Sample

Title: Business Manager

Phone: 662-834-2175

- b. Corrective Action Planned:

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

- c. Anticipated Completion Date:

June 30, 2009

2007-3

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

Name: Powell Rucker/Kathy Sample/Sundea Glover

Title: Superintendent/Business Manager/Accounts Payables
Clerk

Phone: 662-834-2175

- b. Corrective Action Planned:

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

- c. Anticipated Completion Date:

June 30, 2009

CORRECTIVE ACTION PLAN CONTINUES:

3

2007-4

a. Name of Contact Person Responsible for Corrective Action:

Name: Powell Rucker/Kathy Sample
Title: Superintendent/Business Manager
Phone: 662-834-2175

b. Corrective Action Planned:

The district will ensure that the policies and procedures for the collection, depositing and expensing of funds follow the procedures that are in place.

c. Anticipated Completion Date:

June 30, 2009

2007-5

a. Name of Contact Person Responsible for Corrective Action:

Name: Kathy Sample/Sundea Glover
Title: Business Manager/Accounts Payable Clerk
Phone: 662-834-2175

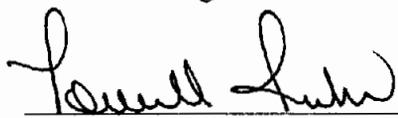
b. Corrective Action Planned:

The district will ensure that all cash accounts of the district are properly reconciled to the district's general ledger.

c. Anticipated Completion Date:

June 30, 2009

Authorized Signature



Superintendent of Education

Date

1/23/09

POWELL RUCKER
SUPERINTENDENT

BENNY MONTGOMERY
DEPUTY SUPERINTENDENT
FEDERAL PROGRAMS
OPERATIONS

ARNOLD HARRIS
ASSISTANT SUPERINTENDENT
CURRICULUM / INSTRUCTION



HOLMES COUNTY SCHOOL DISTRICT

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DISTRICT C
HELEN JOHNSON
DISTRICT D
RAYFORD HORTON
DISTRICT E

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

January 20, 2009

Gentlemen:

07-06 Finding

Compliance Requirements: Activity or Unallowed

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

U.S. Department of Education, Mississippi Department of Education

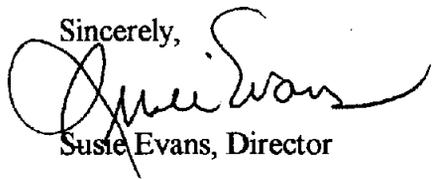
As reported in the prior two years' reports, in the review of an on-site focused monitoring visit performed by MS Department of Education. Office of Special Education, conducted during the week of April 19, 2004, the District was sited for noncompliance in implementing the Individuals with Disabilities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

Answer

1. The Administration is working more closely with schools to handle discipline behaviors problems across the district.
2. The District will provide training to the teachers and proper placements of students suspected of having Emotional Disabilities.
3. The District will track all students who have Emotional & Behavior concerns to improve their instructional programs. Training is being provided in the area of Behavior and Emotional Disorders.

If you have any questions, please contact Susie Evans, Director at (662) 834-2175.

Sincerely,

A handwritten signature in cursive script, appearing to read "Susie Evans". The signature is written in black ink and is positioned above the printed name.

Susie Evans, Director

SE: aj

HOLMES COUNTY SCHOOL DISTRICT

SUMMARY OF PRIOR AUDIT FINDINGS

POWELL RUCKER
SUPERINTENDENT

BENNY MONTGOMERY
DEPUTY SUPERINTENDENT
FEDERAL PROGRAMS
OPERATIONS

ARNOLD HARRIS
ASSISTANT SUPERINTENDENT
CURRICULUM / INSTRUCTION



HOLMES COUNTY SCHOOL DISTRICT

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DISTRICT D
RAYFORD HORTON
DISTRICT E

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

December 19, 2008

Gentlemen:

06-07 Finding

Compliance Requirements Allowable Costs/Cost Principles

Program: Special Education Cluster -CFDA#84.027 and CFDA#84.173
U.S. Department of Education, Mississippi Department of Education

CFDA#84.027

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

Recommendation

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

Answer

The Special Education Director is given a copy of the budget codes according to the approved budget. The director will carefully code all expenditures according to the request and work with the business office to ensure that the codes match the approved budget.

06-06
CFDA#84.173

Recommendation

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

Answer

The District has hired a new Children with Disabilities Director who will work with teachers and parents to ensure that federal guidelines are followed.

If you have any questions, please contact Susie Evans, Director at (662) 834-2175.

Sincerely,



Susie Evans, Director

SE: aj