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**HANCOCK COUNTY SCHOOL DISTRICT**

**Audited Financial Statements  
For the Year Ended June 30, 2008**

**HANCOCK COUNTY SCHOOL DISTRICT**  
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**INDEPENDENT AUDITOR'S REPORT  
ON THE BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION**

October 15, 2009

Superintendent and School Board  
Hancock 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 Hancock County School District as of and for the year ended June 30, 2008, which collectively comprise the Hancock County School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Hancock 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 Hancock County School District, as of June 30, 2008, 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 October 15, 2009, on our consideration of the Hancock 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 (3) through (10) and the Budgetary Comparison Schedules and corresponding notes on pages (37) through (40) 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 Hancock 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.

The other supplemental information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances, General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances, All Governmental Fund, Last Four Years, is presented for purposes of additional analysis as required by the Mississippi Department of Education and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

*McDaniel CPA Firm*

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**HANCOCK COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2008**

The discussion and analysis of Hancock County School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2008. 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. This discussion and analysis does not reflect any financial information related to the component unit.

**FINANCIAL HIGHLIGHTS**

- Total net assets increased \$ 22,168,895, which represents 58 % increase from fiscal year 2007.
- General revenues account for \$ 32,488,581 in revenue, or 56 % of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$ 25,222,679 or 44 % of total revenues.
- The District had \$ 35,542,365 in expenses; only \$ 25,222,679 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$ 32,488,581 were adequate to provide for these programs.
- Among major funds, the General Fund had \$ 29,021,598 in revenues and \$ 25,842,323 in expenditures. The General Fund's fund balance decreased \$ 2,075,683 over the prior year.
- Capital assets, net of accumulated depreciation, increased by \$ 34,239,983.
- Long-term debt increased by \$ 7,271,141.

**OVERVIEW OF FINANCIAL STATEMENTS**

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

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

**HANCOCK COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2008**

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

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

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

The government-wide financial statements can be found on pages 11 - 12 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 14 and 16, respectively, of this report.

The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School Districts*. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues,

**HANCOCK COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2008**

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 13 – 16 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 a separate Statement of Fiduciary Assets and Liabilities on page 17.

**Notes to the financial statements.** The notes provide additional information that is essential to have a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18 -36 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 schedule has been provided for the General Fund and each additional major special revenue fund. This required supplementary information can be found on pages 37 - 40 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and a schedule of instructional, administrative and other expenditures for governmental funds can be found on pages 41 and 42 respectively, of this report.

Also, included in the other supplemental information section are the Statement of Revenues, Expenditures and Changes in Fund Balances, General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balance, All Governmental Funds, Last Four Years. This information is presented for purposes of additional analysis as required by the Mississippi Department of Education and is not a required part of the basic financial statements.

#### **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 \$ 59,870,576 as of June 30, 2008.

Of the District's net assets (72 %) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment, leased property under capital leases and construction in progress) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

**HANCOCK COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2008**

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

The following table presents a summary of the District's net assets as of June 30, 2008 and 2007, respectively.

	<u>Net Assets</u>		<b>Percentage Change</b>
	<u>June 30, 2008</u>	<u>June 30, 2007</u>	
Current Assets	23,999,181	24,037,360	-0.16%
Capital Assets, Net	68,023,436	33,783,453	101.35%
<b>Total Assets</b>	<u>92,022,617</u>	<u>57,820,813</u>	<u>59.15%</u>
Current Liabilities	6,940,562	1,891,089	267.01%
Long-term debt outstanding	25,211,479	17,940,338	40.53%
<b>Total Liabilities</b>	<u>32,152,041</u>	<u>19,831,427</u>	<u>62.13%</u>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	43,133,436	16,078,453	168.27%
Restricted	11,197,138	7,999,617	39.97%
Unrestricted	5,540,002	13,911,316	-60.18%
<b>Total Net Assets</b>	<u>59,870,576</u>	<u>37,989,386</u>	<u>57.60%</u>

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

- The issuance of new long-term debt.
- The addition of \$ 36,518,520 in capital assets from the construction in progress of the district wide building program which began in FY 07-08.

**Changes in net assets.** The District's total revenues for the fiscal year ended June 20, 2008 were \$ 57,711,260. The total cost of all programs and services was \$ 35,542,365. The following table presents a summary of the changes in net assets for the fiscal years ending June 30, 2008 and 2007 respectively.

**HANCOCK COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Change in Net Assets</u>		Percentage Change
	<u>June 30, 2008</u>	<u>June 30, 2007</u>	
<b>Revenues:</b>			
Program Revenues:			
Charges for Services	\$ 3,192,036	\$ 4,845,782	-34.13%
Operating grants and contributions	21,909,152	5,832,817	275.62%
Capital grants and contributions	121,491		
General revenues:			
Property taxes	12,457,893	10,745,370	15.94%
Grants and contributions not restricted	18,053,368	16,257,493	11.05%
Other	1,977,320	1,737,711	13.79%
<b>Total revenues</b>	<u>57,711,260</u>	<u>39,419,173</u>	<u>46.40%</u>
<b>Expenses:</b>			
Instruction	19,529,325	18,565,597	5.19%
Support Services	12,909,072	16,883,158	-23.54%
Non-instructional	2,040,666	1,877,809	8.67%
Sixteenth Section	1,401	6,252	-77.59%
Interest and other expense on long-term liabilities	1,001,070	805,760	24.24%
Other uses	60,831		100.00%
<b>Total expenses</b>	<u>35,542,365</u>	<u>38,138,576</u>	<u>-6.81%</u>
<b>Increase (Decrease) in net assets</b>	<u>22,168,895</u>	<u>1,280,597</u>	<u>1631.14%</u>
<b>Net Assets, July 1</b>	<u>37,989,386</u>	<u>36,486,903</u>	<u>4.12%</u>
<b>Prior Period Adjustment</b>	<u>(287,705)</u>	<u>221,886</u>	<u>-229.66%</u>
<b>Net Assets, July 1, restated</b>	<u>37,701,681</u>	<u>36,708,789</u>	<u>2.70%</u>
<b>Net Assets, June 30</b>	<u>\$ 59,870,576</u>	<u>\$ 37,989,386</u>	<u>57.60%</u>

**Governmental activities.** The following table presents the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section and interest and other expenses on long-term debt for fiscal years ending June 30, 2008 and 2007, respectively. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and District's taxpayers by each of these functions.

**HANCOCK COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2008**

	2008		2007	
	Total Expenses	Net(Expense) Revenue	Total Expenses	Net(Expense) Revenue
Instruction	\$ 19,529,325	\$ (15,402,677)	\$ 18,565,597	\$ (12,400,139)
Support Services	12,909,072	6,017,716	16,883,158	(14,619,700)
Non-instructional	2,040,666	128,577	1,877,809	371,581
Sixteenth Section	1,401	(1,401)	6,252	(5,959)
Interest and other expenses on long-term liabilities	1,001,070	(1,001,070)	805,760	(805,760)
Other uses	60,831	(60,831)		
<b>Total expenses</b>	<b>\$ 35,542,365</b>	<b>\$ (10,319,686)</b>	<b>\$ 38,138,576</b>	<b>\$ (27,459,977)</b>

- Net cost of governmental activities (\$ 10,319,686) was financed by general revenue, which is made up of primarily property taxes \$ 12,181,620 and state revenue \$ 17,824,759.
- Investment earnings accounted for \$ 940,436 of funding.

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

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$ 17,519,072, a decrease of \$ 4,822,644 due primarily to the construction of new buildings. 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 \$ 2,075,683. The fund balance of Other Governmental Funds showed an increase of \$ 912,307 due primarily to an increase in anticipated state and federal revenues.

**BUDGETARY HIGHLIGHTS**

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

- The implementation of the building program began and expenditures for construction were made.
- The three mill note debt proceeds in the amount of \$ 9,500,000 increased proceeds of loan.

**HANCOCK COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2008**

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

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of June 30, 2008, the District's total capital assets were \$ 81,406,350, including land, school buildings, busses, other school vehicles and furniture and equipment. This amount represents an net increase of \$ 34,512,530 from the previous year. Total accumulated depreciation as of June 30, 2008 was \$ 13,382,914 resulting in total net capital assets of \$ 68,023,436.

	Capital Assets, Net of Depreciation		Percentage Change
	2008	2007	
Land	1,138,399	483,495	135%
Construction in progress	-	376,889	-100%
Buildings	61,810,730	27,691,591	123%
Improvements other than buildings	2,591,797	2,826,597	-8%
Mobile equipment	2,112,685	2,120,754	0%
Furniture and equipment	369,825	284,127	30%
<b>Total</b>	<b>68,023,436</b>	<b>33,783,453</b>	<b>101%</b>

Additional information of the District's capital assets can be found in Note 5 on page 30 of this report.

**Debt Administration.** At June 30, 2008, the District had \$ 25,211,479 in long-term debt outstanding, of which \$ 2,530,000 is due within one year. The district does not have a bond rating with any one bond rating agency. The Districts' bonds are non-rated. The district has never defaulted or been late with any debt payments.

	Outstanding Debt		Percentage Change
	2008	2007	
General obligation bonds payable	11,020,000	13,150,000	-16%
Limited obligation bonds payable	4,370,000	4,555,000	-4%
Three mill notes payable	9,500,000	-	
Compensated absences payable	321,479	235,338	37%
<b>Total</b>	<b>25,211,479</b>	<b>17,940,338</b>	<b>41%</b>

**HANCOCK COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2008**

**CURRENT ISSUES**

The Hancock County School District is financially stable and is recovering well from Hurricane Katrina. The millage rate has not significantly changed over the past several years. The District is proud of its community support of the public schools.

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

Latest enrollment figures indicate that student enrollment in the District will increase. The budget for the next fiscal year has taken into account this increase in both funding and staffing needs.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

If you have questions about this report, contact the Superintendent's Office of the Hancock County School District, 17304 Highway 603, Kiln, MS 39556.

**BASIC FINANCIAL STATEMENTS**

HANCOCK COUNTY SCHOOL DISTRICT  
Statement of Net Assets  
June 30, 2008

Exhibit A

	<u>Governmental Activities</u>
<b>Assets:</b>	
Cash and cash equivalents	\$ 10,609,406
Investments	229,599
Due from other governments	12,591,133
Other receivable, net	10,326
Inventories	49,432
Restricted assets	509,285
Capital assets, non-depreciable:	
Land	1,138,399
Capital assets, net of accumulated depreciation:	
Buildings	61,810,730
Improvements other than buildings	2,591,797
Mobile equipment	2,112,685
Furniture and equipment	369,825
<b>Total Assets</b>	<u>92,022,617</u>
<b>Liabilities:</b>	
Accounts payable and accrued liabilities	6,480,109
Interest payable on long-term liabilities	460,453
Long-term liabilities, due within one year:	
Capital related liabilities	2,530,000
Long-term liabilities, due beyond one year:	
Capital related liabilities	22,360,000
Non-capital related liabilities	321,479
<b>Total Liabilities</b>	<u>32,152,041</u>
<b>Net Assets:</b>	
Invested in capital assets, net of related debt	43,133,436
Restricted net assets:	
Expendable:	
School-based activities	1,477,930
Debt service	1,058,917
Capital improvements	7,800,861
Forestry improvements	31,200
Unemployment benefits	138,457
Non-expendable:	
Sixteenth section	689,773
Unrestricted	5,540,002
<b>Total Net Assets</b>	<u>59,870,576</u>

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

Hancock County School District  
Statement of Activities  
For the Year Ended June 30, 2008

Exhibit B

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges For Services	Operating Grants and Contributions		Capital Grants and Contributions
Governmental Activities:					
Instruction	\$ 19,529,325	1,801,607	2,325,041	121,491	\$ (15,402,677)
Support services	12,909,072	698,893	18,106,404		6,017,716
Non-instructional	2,040,688	691,536	1,477,707		128,577
Sixteenth section	1,401				(1,401)
Interest on long-term liabilities	1,001,070				(1,001,070)
Other uses	60,831				(60,831)
Total governmental activities	\$ 35,542,365	3,192,036	21,909,152	121,491	(10,319,686)
General Revenues:					
Taxes:					
General purpose levies					9,098,832
Debt purpose levies					3,082,788
Gaming					276,273
Unrestricted grants and contributions:					
State					17,824,759
Federal					228,809
Unrestricted investment earnings					940,436
Sixteenth section sources					166,668
Other					870,216
Total General Revenues					32,488,581
Change in Net Assets					22,168,895
Net Assets - Beginning					37,989,386
Prior Period Adjustments					(287,705)
Net Assets - Beginning - Restated					37,701,681
Net Assets - Ending					\$ 59,870,576

Hancock County School District  
 Balance Sheet - Governmental Funds  
 June 30, 2008

Exhibit C

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	FEMA MEMA Fund	Hurricane Katrina Fund		
<b>ASSETS</b>					
Cash and cash equivalents	\$ 6,646,402			4,472,289	\$ 11,118,691
Investments				229,599	229,599
Due from other governments	465,523	9,360,531	2,305,486	459,593	12,591,133
Other receivables, net				10,326	10,326
Due from other funds	11,316,005		13,444,759	46,724	24,807,488
Advance to other funds				65,475	65,475
Inventories				49,432	49,432
<b>Total Assets</b>	<b>18,427,930</b>	<b>9,360,531</b>	<b>15,750,245</b>	<b>5,333,438</b>	<b>48,872,144</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable and accrued liabilities	1,473,709		4,685,946	320,454	6,480,109
Due to other funds	4,084,228	9,360,531	11,064,299	298,430	24,807,488
Advances from other funds	65,475				65,475
<b>Total Liabilities</b>	<b>5,623,412</b>	<b>9,360,531</b>	<b>15,750,245</b>	<b>618,884</b>	<b>31,353,072</b>
<b>Fund Balances:</b>					
<b>Reserved for:</b>					
Advances				64,475	64,475
Inventory				49,432	49,432
Capital projects				793,349	793,349
Debt service				1,519,370	1,519,370
Unemployment benefits				138,457	138,457
Forestry improvement purposes				31,200	31,200
Permanent fund purposes				689,773	689,773
<b>Unreserved:</b>					
<b>Undesignated, reported in:</b>					
General fund	5,797,008				5,797,008
Special revenue funds				1,428,498	1,428,498
Capital projects funds	7,007,512				7,007,512
<b>Total Fund Balances</b>	<b>12,804,518</b>	<b>-</b>	<b>-</b>	<b>4,714,554</b>	<b>17,519,072</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 18,427,930</b>	<b>9,360,531</b>	<b>15,750,245</b>	<b>5,333,438</b>	<b>\$ 48,872,144</b>

Hancock County School District  
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets  
June 30, 2008

Exhibit C-1

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	<u>Amount</u>
Total fund balance - governmental funds	\$ 17,519,072
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets are used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$ 13,382,914	68,023,436
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(25,211,479)
3. Governmental funds recognize interest on long-term debt when it becomes due, however the Statement of Net Assets recognizes interest as it accrues.	(460,453)
Total net assets - governmental activities	<u>\$ 59,670,576</u>

HANCOCK COUNTY SCHOOL DISTRICT  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2008

Exhibit D

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	FEMA MEMA Grant Fund	Hurricane Katrina Fund		
<b>Revenues:</b>					
Local sources	\$ 11,201,366		26,727	3,808,469	\$ 15,036,562
State sources	17,543,823			1,213,461	18,757,284
Federal sources	276,408	16,848,407		4,201,912	21,326,728
Sixteenth section sources				208,386	208,386
<b>Total Revenues</b>	<b>29,021,598</b>	<b>16,848,407</b>	<b>26,727</b>	<b>9,430,228</b>	<b>55,326,980</b>
<b>Expenditures:</b>					
Instruction	15,386,853			3,097,572	18,484,425
Support services	9,469,726		1,266,333	1,317,437	12,053,496
Noninstructional services	56,399			1,912,866	1,969,265
Sixteenth section				1,401	1,401
Facilities acquisition and construction	870,833		35,212,680		36,083,513
Debt service:					
Principal				2,430,000	2,430,000
Interest	3,492			732,570	736,062
Other	55,020			5,500	60,520
<b>Total Expenditures</b>	<b>25,842,323</b>	<b>-</b>	<b>38,479,013</b>	<b>9,497,346</b>	<b>71,818,682</b>
Excess (deficiency) of revenues over expenditures	3,179,275	16,848,407	(36,452,286)	(67,118)	(16,491,722)
<b>Other Financing Sources (Uses):</b>					
Proceeds of refunding bonds	4,055,000				4,055,000
Premium on debt issuance	18,420				18,420
Proceeds of loans				9,500,000	9,500,000
Insurance loss recoveries	23,322		2,305,486		2,328,808
Operating transfers in	2,646,129		30,693,558	1,297,971	34,637,658
Operating transfers out	(7,775,274)	(17,121,656)	(79,812)	(9,660,914)	(34,637,656)
Other financing uses	(311)				(311)
Payment to refunded bond escrow agent	(3,940,000)				(3,940,000)
<b>Total Other Financing Sources (Uses)</b>	<b>(4,972,714)</b>	<b>(17,121,656)</b>	<b>32,919,230</b>	<b>1,137,057</b>	<b>11,961,917</b>
<b>Net change in fund balances</b>	<b>(1,793,439)</b>	<b>(273,249)</b>	<b>(3,533,056)</b>	<b>1,069,939</b>	<b>(4,529,805)</b>
<b>Fund Balances:</b>					
July 1, 2007	14,880,201	158,184	3,501,084	3,802,247	22,341,716
Prior period adjustments	(282,244)	115,065	31,972	(79,173)	(214,380)
July 1, 2007, as restated	14,597,957	273,249	3,533,056	3,723,074	22,127,336
Increase(Decrease) in reserve for inventory				(78,459)	(78,459)
June 30, 2008	\$ 12,604,518	-	-	4,714,554	\$ 17,519,072

HANCOCK COUNTY SCHOOL DISTRICT  
 Reconciliation of Governmental Funds Statement of Revenues,  
 Expenditures and Changes in Fund Balances to the Statement of Activities  
 For the Year Ended June 30, 2008

Exhibit D-1

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ (4,529,805)
Amounts reported for governmental activities in the Statement of Activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchased amounted to \$ 36,518,520 and the depreciation expense amounted to \$ 1,194,949.	35,323,571
2. The issuance of long-term debt provides current financial resources to governmental funds, but the issuance increases long-term liabilities in the Statement of Net Assets.	(9,500,000)
3. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Activities.	2,430,000
4. 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.	(265,008)
5. Gains and losses on the sale or disposals of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds.	(1,125,263)
6. Increase ( decrease ) in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are ( increased ) decreased in the Statements of Activities.	(78,459)
7. 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	(86,141)
Change in Net Assets of Governmental Activities	<u>\$ 22,168,895</u>

**HANCOCK COUNTY SCHOOL DISTRICT**  
**Statement of Fiduciary Assets and Liabilities**  
**June 30, 2008**

Exhibit E

	<u>Agency Funds</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 99,115
<b>Total Assets</b>	<u><u>99,115</u></u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	7,808
Due to student clubs	91,307
<b>Total Liabilities</b>	<u><u>\$ 99,115</u></u>

**NOTES TO FINANCIAL STATEMENTS**

# HANCOCK COUNTY SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2008

## (1) Summary of Significant Accounting Policies.

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

### A. Financial Reporting Entity.

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the school district's governing board. As defined by accounting principles generally accepted in the United States of America, the school district is considered a "primary government." The school district is governed by a five member board to which each member was elected by the citizens of each defined county district.

For financial reporting purposes, Hancock County School District has included all funds and organizations. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District.

### B. Basis of Presentation.

#### Government-wide Financial Statements:

The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

1. *Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.
2. *Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
3. *Unrestricted net assets* consist of net assets not meeting the definition of the two

## HANCOCK COUNTY SCHOOL DISTRICT

### Notes to Financial Statements For the Year Ended June 30, 2008

preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

#### ***Fund Financial Statements:***

Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

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.

FEMA / MEMA Grant Fund – This fund accounts for federal funds received for Hurricane Katrina and projects which will be partially financed through the Federal Emergency Management Agency, and the Mississippi Emergency Management Agency.

Hurricane Katrina Fund – This fund accounts for insurance proceeds received due to damage by Hurricane Katrina and will be used to repair and supplement those projects which will not be aided by the Federal Emergency Management Agency and the Mississippi Emergency Management Agency.

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

The District's fiduciary funds include the following:

Payroll Clearing Fund – This fund serves as a clearing fund for payroll type transactions.

Accounts Payable Clearing Fund – This fund serves as a clearing fund for accounts payable type transactions.

## HANCOCK COUNTY SCHOOL DISTRICT

### Notes to Financial Statements For the Year Ended June 30, 2008

Student Club Funds – These various funds account for the monies raised through school club activities and fund raisers and club related expenditures approved by the individual clubs.

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.

#### FIDUCIARY FUNDS

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

#### 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 recorded when earned and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and judgments, are recorded only when payment is due.

# HANCOCK COUNTY SCHOOL DISTRICT

## Notes to Financial Statements For the Year Ended June 30, 2008

Federal grants and assistance awards made on the basis of entitlement periods are recorded as receivables and revenues when entitlement occurs. Federal reimbursement type grants are recorded as revenues when the related expenditures are recognized. Use of grant resources is conditioned upon compliance with terms of the grant agreements and applicable federal regulations, which include subjecting grants to financial and compliance audits.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual.

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.

Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

The effect of interfund activity has been eliminated from the government-wide statements.

Revenues from the Mississippi Adequate Education Program Revenues are appropriated on a fiscal year basis and are recorded at the time the revenues are received from the State of Mississippi.

### **D. Account Classifications.**

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting* as issued in 2005 by the Government Finance Officers Association and are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 2003* issued by the U.S. Department of Education.

### **E. Encumbrances.**

An encumbrance system is not maintained to account for commitments resulting from approved purchase orders, work orders and contracts.

### **F. Assets, liabilities, and net assets or equity.**

1. Cash, Cash equivalents and Investments

# HANCOCK COUNTY SCHOOL DISTRICT

## Notes to Financial Statements For the Year Ended June 30, 2008

### Cash and cash equivalents.

The district's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. 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.

### 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 for the district are reported at fair market value.

### 2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

### 3. Due from Other Governments

Due from other governments represents amounts due from the State of Mississippi, and various grants and reimbursements from other governments.

### 4. Inventories and Prepaid Items.

Donated commodities are received from the USDA and are valued at USDA cost. Other inventories are valued at cost (calculated on the first-in, first-out basis). The costs of governmental fund type inventories are reported as expenditures when purchased.

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

**HANCOCK COUNTY SCHOOL DISTRICT**

Notes to Financial Statements  
For the Year Ended June 30, 2008

5. Restricted Assets

Certain resources set aside for repayment of debt are classified as restricted assets on the balance sheet because their use is limited by applicable debt statutes. Also, the nonexpendable portion of the Permanent Fund, if applicable, is classified as restricted assets because the 16<sup>th</sup> Section Principal fund is not available for use by the district except as provided for under state statute for loans from this account.

6. Capital Assets.

Capital assets, which include property, plant, furniture and equipment, are reported in the governmental activities column in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost or estimated historical cost based on appraisals or deflated current replacement cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the thresholds in the following table and estimated useful lives in excess of two years.

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.

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

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

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

7. Compensated Absences.

Employees of the school district accumulate sick leave at a minimum amount as required by state law. A greater amount may be provided by school district policy provided that it does not exceed the provisions for leave as provided in Sections

## HANCOCK COUNTY SCHOOL DISTRICT

### Notes to Financial Statements For the Year Ended June 30, 2008

25-3-93 and 25-3-95. 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.

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

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

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

#### 9. Fund equity.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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

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

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

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

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

## HANCOCK COUNTY SCHOOL DISTRICT

### Notes to Financial Statements For the Year Ended June 30, 2008

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.

#### **(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

# HANCOCK COUNTY SCHOOL DISTRICT

## Notes to Financial Statements For the Year Ended June 30, 2008

investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration. Investment income on bond funds (Capital Project 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 \$ 11,118,691, and \$ 99,115, respectively. The bank balance was \$ 11,879,371.

*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 the 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, 2008, none of the district's bank balance of \$ 11,879,371 was exposed to custodial credit risk.

### Investments.

As of June 30, 2008, the district had the following investments.

<u>Investment Type</u>	<u>Maturities ( in years)</u>	<u>Fair Value</u>	<u>Rating</u>
Hancock Horizon Treasury Securities Money Market Mutual Fund	Less than 1 year	\$ 229,599	AAA
Total Investments		\$ 229,599	

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

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

*Custodial Credit Risk - Investments.* Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk. The investment in the Hancock Horizon Treasury Securities Money Market Mutual Funds are uninsured and unregistered and are not backed by the full faith and credit of the federal government.

**HANCOCK COUNTY SCHOOL DISTRICT**

Notes to Financial Statements  
For the Year Ended June 30, 2008

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

The following is a summary of interfund transactions and balances:

**A. Due from / To Other Funds:**

	Due From	Due To
Governmental Funds:		
General fund	\$ 11,316,005	4,084,228
Fema / Mema fund	-	9,360,531
Hurricane Katrina fund	13,444,759	11,064,299
Other governmental funds	46,724	298,430
Total Funds	\$ 24,807,488	24,807,488

The purpose of interfund loans was to account for federal funds that were not received until after the year ending 6/30/2008.

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

	Advances To	Advances From
Governmental Funds:		
General fund	\$ -	65,475
16th section principal fund	65,475	-
Total Funds	\$ 65,475	65,475

HANCOCK COUNTY SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2008

The sixteenth section principal loans payable is not reflected on the Statement of Net Assets because these funds were borrowed by the General Fund from the Sixteenth Section Trust Fund (Permanent Trust) in accordance with Section 29-3-113, Miss. Code Ann. (1972). The revenues and expenditures associated with these transactions were reflected on Exhibit D-1.

Sixteenth section principal loans payable.

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

Year Ending June 30	Principal	Interest	Total
2009	21,825	2,619	24,444
2010	21,825	1,746	23,571
2011	21,825	873	22,698
Total	<u>\$ 65,475</u>	<u>\$ 5,238</u>	<u>\$ 70,713</u>

C. Transfers In / Out:

	Transfers In	Transfers Out
Governmental Funds:		
General fund	\$ 2,646,129	7,775,274
Fema / Mema grant fund	-	17,121,657
Hurricane Katrina fund	30,693,556	79,812
Other governmental funds	1,297,971	9,660,913
Total Funds	<u>\$ 34,637,656</u>	<u>34,637,656</u>

The purpose of transfers in and transfers out were related to debt service payments and standard operations.

**HANCOCK COUNTY SCHOOL DISTRICT**

Notes to Financial Statements  
For the Year Ended June 30, 2008

**(4) Restricted Assets.**

The restricted assets represent the cash balance totaling \$ 509,285 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

**(5) Capital Assets.**

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

	Balance <u>7/1/2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Completed Construction</u>	<u>Adjustments</u>	Balance <u>6/30/2008</u>
<u>Non-depreciable capital</u>						
Land	\$ 483,495	654,904				\$ 1,138,399
Construction in progress	378,889			(376,889)		-
<b>Total non-depreciable</b>	<b>860,384</b>	<b>654,904</b>	<b>-</b>	<b>(376,889)</b>	<b>-</b>	<b>1,138,399</b>
<u>Depreciable capital assets</u>						
Buildings	37,513,019	35,051,720	(1,343,943)	376,889		71,597,685
Improvements other than buildings	3,427,295		(203,922)			3,223,373
Mobile equipment	4,013,805	287,352	(12,990)		7,721	4,295,888
Furniture and equipment	1,079,317	147,655	(75,967)			1,151,005
<b>Total depreciable capital</b>	<b>46,033,436</b>	<b>35,486,727</b>	<b>(1,636,822)</b>	<b>376,889</b>	<b>7,721</b>	<b>80,267,951</b>
<u>Less accumulated:</u>						
Buildings	9,821,428	711,578	(375,096)		(370,955)	9,786,955
Improvements other than buildings	600,698	127,415	(52,542)		(43,995)	631,576
Mobile equipment	1,893,051	301,843	(11,691)			2,183,203
Furniture and equipment	795,190	54,113	(72,230)		4,107	781,180
<b>Total accumulated depreciation</b>	<b>13,110,367</b>	<b>1,194,949</b>	<b>(511,559)</b>	<b>-</b>	<b>(410,843)</b>	<b>13,382,914</b>
<b>Total depreciable capital assets, net</b>	<b>32,923,069</b>	<b>34,291,778</b>	<b>(1,125,263)</b>	<b>376,889</b>	<b>418,564</b>	<b>66,885,037</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 33,783,453</b>	<b>34,946,682</b>	<b>(1,125,263)</b>	<b>-</b>	<b>418,564</b>	<b>\$ 68,023,436</b>

**HANCOCK COUNTY SCHOOL DISTRICT**

Notes to Financial Statements  
For the Year Ended June 30, 2008

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$ 42,100
Support Services	1,074,307
Non-instructional	78,542
 Total depreciation expense	 <u>\$ 1,194,949</u>

**(6) Long-term liabilities.**

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

The following is a summary of changes in general long-term debt:

	<u>Balance 7/1/2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/2008</u>	<u>Amounts due within one year</u>
A. General obligation bonds payable	\$ 13,150,000		(2,130,000)	11,020,000	1,895,000
B. Limited obligation bonds payable	4,555,000	4,055,000	(4,240,000)	4,370,000	315,000
C. Three mill notes payable	-	9,500,000		9,500,000	320,000
D. Compensated absences payable	235,338	86,141		321,479	-
Total	<u>\$ 17,940,338</u>	<u>13,641,141</u>	<u>(6,370,000)</u>	<u>25,211,479</u>	<u>2,530,000</u>

The reduction of limited obligation bonds payable in the amount of \$ 4,240,000 includes the refunding of \$3,940,000 and the principal payment of \$ 300,000.

**A. General obligation bonds payable.**

**HANCOCK COUNTY SCHOOL DISTRICT**

Notes to Financial Statements  
For the Year Ended June 30, 2008

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
General obligation refunding bonds, Series 2004	3.00-5.00%	10/28/2004	4/15/2014	14,200,000	11,020,000
Total				<u>\$ 14,200,000</u>	<u>\$ 11,020,000</u>

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	1,895,000	469,325	2,364,325
2010	2,010,000	374,575	2,384,575
2011	2,105,000	274,075	2,379,075
2012	2,210,000	200,400	2,410,400
2013	1,800,000	112,000	1,912,000
2014-2018	1,000,000	40,000	1,040,000
Total	<u>\$ 11,020,000</u>	<u>\$ 1,470,375</u>	<u>\$ 12,490,375</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 last completed assessment for taxation, unless certain conditions, as set forth in state statutes, have been met. As of June 30, 2008, the amount of outstanding bonded indebtedness was equal to 5.9% of property assessments as of October 1, 2007. This debt will be retired from the Bond I & S - 97 Fund.

**B. Limited obligation bonds payable.**

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

**HANCOCK COUNTY SCHOOL DISTRICT**

Notes to Financial Statements  
For the Year Ended June 30, 2008

<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 bonds	4.5-4.80%	6/15/1998	2/1/2018	5,905,000	315,000
State aid capital improvement refunding bonds, series 2008	3.0-3.6%	3/6/2008	2/1/2018	4,055,000	4,055,000
Total				<u>\$ 9,960,000</u>	<u>\$ 4,370,000</u>

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	315,000	304,730	619,730
2010	35,000	128,490	163,490
2011	395,000	122,490	517,490
2012	405,000	110,490	515,490
2013	420,000	97,665	517,665
2014-2018	2,800,000	284,588	3,084,588
Total	<u>\$ 4,370,000</u>	<u>\$ 1,048,453</u>	<u>\$ 5,418,453</u>

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

**Current Refunding.**

On March 6, 2008, the district issued \$ 4,055,000 state aid capital improvement refunding bonds, series 2008, with an average interest rate of 3.3 % to advance refund \$ 3,940,000 of outstanding state aid capital improvement bonds with an average interest rate of 4.65 %. The net proceeds of \$ 3,999,980 after payments of \$ 41,000 for issuance costs were deposited in an irrevocable trust with an escrow agent to provide for all future debt payment requirements on the state aid capital improvement refunding bonds, series 2008.

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

The district advanced refunded the state aid capital improvement bonds to reduce its total debt service payments over the remaining ten years of the debt by approximately \$ 489,860 and to obtain an economic gain of \$ 489,860.

**C. Three mill note payable.**

Debt currently outstanding is as follows:

**HANCOCK COUNTY SCHOOL DISTRICT**

Notes to Financial Statements  
For the Year Ended June 30, 2008

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Limited tax note	4.16%	10/16/2007	10/1/2027	\$ 9,500,000	\$ 9,500,000
<b>Total</b>				<u>\$ 9,500,000</u>	<u>\$ 9,500,000</u>

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	320,000	569,677	889,677
2010	350,000	374,608	724,608
2011	365,000	359,736	724,736
2012	380,000	344,240	724,240
2013	395,000	328,120	723,120
2014-2018	2,155,000	1,377,272	3,532,272
2019-2023	2,480,000	902,096	3,382,096
2024-2027	3,055,000	328,536	3,383,536
<b>Total</b>	<u>\$ 9,500,000</u>	<u>\$ 4,584,285</u>	<u>\$ 14,084,285</u>

This debt will be retired from the Three Mill Note Fund.

**E. Compensated absences payable.**

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

**(7) Defined Benefit Pension Plan.**

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

**Funding Policy.** PERS members are required to contribute 7.25 % of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The current rate is 11.85% 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

HANCOCK COUNTY SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2008

school district's contributions to PERS for the fiscal years ending June 30, 2008, 2007, and 2006 were \$ 1,984,675, \$ 2,058,906 and \$ 1,643,291, respectively, which equaled the required contributions for each year.

**(8) Other Commitments.**

Operating leases:

The school district has several operating leases for the following:

1. Fax Machine
2. Copy Machines
3. Printers
4. Scanners

Lease expenditures for the year ended June 30, 2008, amounted to \$ 31,260. Future lease payments for these leases are as follows:

Year Ending June 30	Amount
2009	\$ 30,476
2010	14,037
2011	1,905
Total	<u>\$ 46,418</u>

**(8) Sixteenth Section Lands.**

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

**HANCOCK COUNTY SCHOOL DISTRICT**

Notes to Financial Statements  
For the Year Ended June 30, 2008

Year Ending June 30	Amount
2009	73,146
2010	72,786
2011	67,011
Total	<u>\$ 212,943</u>

**(9) Prior Period Adjustments/Exhibits.**

A summary of significant fund equity adjustments is as follows:

Exhibit B – Statement of Activities

1. Error in recording prior year amounts.	<u>\$ (287,705)</u>
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Exhibit D – Statement of Revenues, Expenditures and Changes in Fund Balances

<u>Major Funds:</u>	<u>Explanations</u>	<u>Amount</u>
General Fund	Error in recording prior year amounts.	(282,244)
FEMA/MEMA Grant Fund	Error in recording prior year amounts.	115,065
Hurricane Katrina Fund	Error in recording prior year amounts.	31,972
Other governmental funds	Receivable not realized	(79,173)
	Total	<u>\$ (214,380)</u>

**(10) Risk Management.**

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

The school district is a member of the Mississippi Municipal Workers' Compensation Group (MMWCG). The group is a risk-sharing pool; such a pool is frequently referred to as a self-

HANCOCK COUNTY SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2008

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

- (11) **Insurance loss recoveries.** The Hancock County School District received \$ 2,328,808 in insurance loss recoveries related to Hurricane Katrina during the 2007-2008 fiscal year. In the government-wide Statement of Activities, the insurance loss recoveries were reported as Charges for Services and allocated among the expenditure functions based on uses of space in average school buildings as follows:

<u>Insurance Loss Recoveries</u>	<u>Percentage</u>	<u>Expenditure Function</u>
1,513,725	65%	Instruction
582,202	25%	Support services
<u>232,881</u>	<u>10%</u>	Non-instructional
<u><u>2,328,808</u></u>	<u><u>100%</u></u>	

**REQUIRED SUPPLEMENTARY INFORMATION**

HANCOCK COUNTY SCHOOL DISTRICT  
 Budgetary Comparison Schedule  
 General Fund  
 For the Year Ended June 30, 2008

Schedule 1

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	9,501,350	11,219,786	11,201,366	1,718,436	(18,420)
State sources	16,444,431	17,543,823	17,543,823	1,099,392	-
Federal sources	158,000	276,409	276,409	118,409	-
Total Revenues	<u>26,103,781</u>	<u>29,040,018</u>	<u>29,021,598</u>	<u>2,936,237</u>	<u>(18,420)</u>
<b>Expenditures:</b>					
Instruction	13,469,259	15,386,853	15,386,853	(1,917,594)	-
Support services	8,444,088	9,469,726	9,469,726	(1,025,838)	-
Non-instructional services	50,729	56,399	56,399	(5,670)	-
Facilities acquisition and construction	223,072	870,833	870,833	(847,761)	-
Debt service:					
Principal	28,190			26,190	-
Interest		3,492	3,492	(3,492)	-
Other		55,020	55,020	(55,020)	-
Total Expenditures	<u>22,213,338</u>	<u>25,842,323</u>	<u>25,842,323</u>	<u>(3,628,985)</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>3,890,443</u>	<u>3,197,695</u>	<u>3,179,275</u>	<u>(692,748)</u>	<u>(18,420)</u>
<b>Other Financing Sources (Uses)</b>					
Proceeds of refunding bonds	4,055,000	4,055,000	4,055,000	-	-
Premium on debt issuance	-	-	18,420	-	18,420
Insurance loss recoveries	23,322	23,322	23,322	-	-
Operating transfers in	286,537	2,646,129	2,646,129	2,359,592	-
Operating transfers out	(1,059,880)	(7,775,274)	(7,775,274)	(6,715,394)	-
Other financing uses	(311)	(311)	(311)	-	-
Payment to refunded bond escrow agent	(3,940,000)	(3,940,000)	(3,940,000)	-	-
Total Other Financing Sources (Uses)	<u>(635,332)</u>	<u>(4,991,134)</u>	<u>(4,972,714)</u>	<u>(4,355,802)</u>	<u>18,420</u>
Net change in fund balances	<u>3,255,111</u>	<u>(1,793,439)</u>	<u>(1,793,439)</u>	<u>(5,046,550)</u>	<u>-</u>
<b>Fund Balances:</b>					
July 1, 2007	14,762,735	14,880,201	14,880,201	117,466	-
Prior period adjustments	-	(282,244)	(282,244)	(282,244)	-
July 1, 2007, as restated	<u>14,762,735</u>	<u>14,597,957</u>	<u>14,597,957</u>	<u>(164,778)</u>	<u>-</u>
June 30, 2008	<u>18,017,846</u>	<u>12,804,518</u>	<u>12,804,518</u>	<u>(5,213,328)</u>	<u>-</u>

HANCOCK COUNTY SCHOOL DISTRICT  
 Budgetary Comparison Schedule  
 FEMA / MEMA Grant Fund  
 For the Year Ended June 30, 2008

Schedule 2

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Federal sources	12,512,784	16,848,407	16,848,407	4,335,623	-
Total Revenues	12,512,784	16,848,407	16,848,407	4,335,623	-
<b>Expenditures:</b>					
Total Expenditures	-	-	-	-	-
Excess (deficiency) of revenues over expenditures	12,512,784	16,848,407	16,848,407	4,335,623	-
<b>Other Financing Sources (Uses)</b>					
Operating transfers out		(17,121,858)	(17,121,658)	(17,121,656)	-
Total Other Financing Sources (Uses)	-	(17,121,856)	(17,121,656)	(17,121,856)	-
<b>Net change in fund balances</b>	12,512,764	(273,249)	(273,249)	(12,786,033)	-
<b>Fund Balances:</b>					
July 1, 2007	273,249	158,184	158,184	115,065	-
Prior period adjustments July 1, 2007, as restated	273,249	273,249	273,249	(115,065)	-
June 30, 2008	12,786,033	-	-	(12,786,033)	-

HANCOCK COUNTY SCHOOL DISTRICT  
 Budgetary Comparison Schedule  
 Hurricane Katrina Fund  
 For the Year Ended June 30, 2008

Schedule 3

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenue:</b>					
Local sources	-	26,727	26,727	26,727	-
<b>Total Revenues</b>	<b>-</b>	<b>26,727</b>	<b>26,727</b>	<b>26,727</b>	<b>-</b>
<b>Expenditures:</b>					
Support services	1,500,000	1,266,333	1,266,333	233,667	-
Facilities acquisition and construction	1,325,000	35,212,680	35,212,680	(33,887,680)	-
<b>Total Expenditures</b>	<b>2,825,000</b>	<b>36,479,013</b>	<b>36,479,013</b>	<b>(33,654,013)</b>	<b>-</b>
Excess (deficiency) of revenues over expenditures	(2,825,000)	(36,452,286)	(36,452,286)	(33,627,286)	-
<b>Other Financing Sources (Uses)</b>					
Insurance loss recoveries	3,393	2,305,488	2,305,488	2,302,093	-
Operating transfers in		30,893,558	30,893,558	30,893,558	-
Operating transfers out		(79,612)	(79,612)	(79,612)	-
<b>Total Other Financing Sources (Uses)</b>	<b>3,393</b>	<b>32,919,230</b>	<b>32,919,230</b>	<b>32,915,837</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>(2,821,607)</b>	<b>(3,533,056)</b>	<b>(3,533,056)</b>	<b>(711,449)</b>	<b>-</b>
<b>Fund Balances:</b>					
July 1, 2007	3,501,084	3,501,084	3,501,084	-	-
Prior Period Adjustments		31,972	31,972	31,972	-
July 1, 2007, as restated	<b>3,501,084</b>	<b>3,533,056</b>	<b>3,533,056</b>	<b>31,972</b>	<b>-</b>
June 30, 2008	<b>879,477</b>	<b>-</b>	<b>-</b>	<b>(879,477)</b>	<b>-</b>

## HANCOCK COUNTY SCHOOL DISTRICT

Notes to the Required Supplementary Information  
For the Year Ended June 30, 2008

### **Budgetary Comparison Schedule**

(1) **Basis of Presentation.**

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

(2) **Budget Amendments and Revisions.**

The budget is adopted by the school board and filed with the taxing authority. Amendments can be made on the approval of the school board. By statute, final budget revisions must be approved on or before October 15. A budgetary comparison is presented for the General Fund and each major Special Revenue Fund consistent with accounting principles generally accepted in the United States of America.

**SUPPLEMENTAL INFORMATION**

**HANCOCK COUNTY SCHOOL DISTRICT**  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2008

<u>Federal Grantor / Pass-through Grantor / Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Federal Expenditures</u>
<b><u>U.S. Department of Agriculture</u></b>		
Passed - through Mississippi Department of Education:		
Child Nutrition Cluster:		
School breakfast program	10.553	382,283
National school lunch program	10.555	1,196,480
Summer food service program for children	10.559	24,748
<b>Total child nutrition cluster</b>		<u>1,803,509</u>
<b>Total U.S. Department of Agriculture</b>		<u>1,803,509</u>
<b><u>U.S. Department of Defense</u></b>		
Direct program:		
Reserve Officers' Training Corps	12.XXX	48,932
<b>Total U.S. Department of Defense</b>		<u>48,932</u>
<b><u>Federal Communications Commission</u></b>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.XXX	100,950
<b>Total Federal Communications Commission</b>		<u>100,950</u>
<b><u>U.S. Department of Education</u></b>		
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	1,194,420
Career and technical education - basic grants to states	84.048	73,161
Safe and drug-free schools and communities - national programs	84.184	15,181
Safe and drug-free schools and communities - state grants	84.188	45,368
Education for homeless children and youth	84.198	36,737
State grants for innovative programs	84.298	2,160
Education technology state grants	84.318	238
Rural education	84.358	48,800
Improving teacher quality state grants	84.367	195,530
<b>Total</b>		<u>1,811,595</u>
Special education cluster:		
Special education - grants to states	84.027	973,574
Special education - preschool grants	84.173	21,406
<b>Total special education cluster</b>		<u>994,980</u>
<b>Total passed-through Mississippi Department of Education</b>		<u>2,806,575</u>
<b>Total U.S. Department of Education</b>		<u>2,806,575</u>
<b><u>U.S. Department of Health and Human Services</u></b>		
Passed-through Mississippi Department of Health and Human Services:		
Medical assistance program	93.778	59,185
<b>Total</b>		<u>59,185</u>
<b>Total U.S. Department of Health and Human Services</b>		<u>59,185</u>
<b><u>U.S. Department of Homeland Security</u></b>		
Passed-through the Mississippi Emergency Management Agency:		
Disaster grants - public assistance (Presidentially Declared Assistance)	97.036	16,848,408
<b>Total U.S. Department of Homeland Security</b>		<u>16,848,408</u>
<b>Total for All Federal Awards</b>		<u>\$ 21,265,559</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.

Hancock County School District  
 Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds  
 For the Year Ended June 30, 2008

Expenditures	Total	Instruction and Other			
		Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 23,842,533	19,173,577	896,495	1,524,450	2,248,011
Other	47,976,149	2,934,120	365,119	230,603	44,446,307
<b>Total</b>	<b>71,818,682</b>	<b>22,107,697</b>	<b>1,261,614</b>	<b>1,755,053</b>	<b>46,694,318</b>
Total number of students *		4,218			
Cost per student		17,027	299	416	11,070

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); Support Services - Business (2500s)

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

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

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

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

**OTHER SUPPLEMENTAL INFORMATION**

HANCOCK COUNTY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

"UNAUDITED"

General Fund

Last Four Years

	2008	2007*	2006*	2005*
<b>Revenues:</b>				
Local sources	\$ 11,201,388	9,880,545	9,045,816	8,369,432
State sources	17,543,823	15,791,786	15,654,695	14,030,490
Federal sources	276,409	194,058	116,064	114,899
Total Revenues	<u>29,021,598</u>	<u>25,866,391</u>	<u>24,816,575</u>	<u>22,514,821</u>
<b>Expenditures:</b>				
Instruction	15,386,853	14,383,510	7,231,221	13,228,602
Support services	9,469,726	8,464,259	5,926,669	7,923,834
Noninstructional services	56,399	43,655	47,272	61,765
Facilities acquisition and construction	870,833	31,338	108,367	37,562
<b>Debt service:</b>				
Principal			52,812	50,101
Interest	3,492	5,185	9,695	14,079
Other	55,020			
Total Expenditures	<u>25,842,323</u>	<u>22,947,927</u>	<u>13,378,058</u>	<u>21,315,943</u>
Excess (Deficiency) of Revenues over Expenditures	<u>3,179,275</u>	<u>2,918,464</u>	<u>11,440,519</u>	<u>1,198,678</u>
<b>Other Financing Sources (Uses):</b>				
Proceeds of refunding bonds	4,055,000			
Premium on debt issuance	18,420			
Insurance loss recoveries	23,322		1,857	6,369
Sale of transportation equipment		2,650		
Operating transfers in	2,646,129	30,955	11,460,744	1,375,584
Operating transfers out	(7,775,274)	(1,028,032)	(12,516,980)	(2,337,920)
Other financing uses	(311)			
Payment to refunded bond escrow agent	(3,940,000)			
Total Other Financing Sources (Uses)	<u>(4,972,714)</u>	<u>(994,427)</u>	<u>(1,054,379)</u>	<u>(955,987)</u>
Net Change in Fund Balances	<u>(1,793,439)</u>	<u>1,924,037</u>	<u>10,386,140</u>	<u>242,711</u>
<b>Fund Balances:</b>				
Fund balance, July 1	14,880,201	12,734,278	2,356,057	2,113,346
Prior period adjustments	(282,244)	221,886	(7,919)	
Fund balance, July 1, as restated	<u>14,597,957</u>	<u>12,956,164</u>	<u>2,348,138</u>	<u>2,113,346</u>
Fund balance, June 30	\$ <u>12,804,518</u>	<u>14,880,201</u>	<u>12,734,278</u>	<u>2,356,057</u>

\*SOURCE - PRIOR YEAR AUDIT REPORTS

**HANCOCK COUNTY SCHOOL DISTRICT**

Statement of Revenues, Expenditures and Changes in Fund Balances

"UNAUDITED"

All Governmental Funds

Last Four Years

	2008	2007*	2006*	2005*
<b>Revenues:</b>				
Local sources	\$ 15,036,562	13,138,079	12,062,467	11,469,841
State sources	18,757,284	16,959,959	16,824,361	15,947,443
Federal sources	21,326,728	5,125,923	15,846,785	3,562,645
Sixteenth section sources	206,366	144,612	211,802	122,266
<b>Total Revenues</b>	<b>55,326,960</b>	<b>35,368,573</b>	<b>44,945,435</b>	<b>31,102,395</b>
<b>Expenditures:</b>				
Instruction	18,484,425	18,208,360	18,177,406	15,719,745
Support services	12,053,496	15,724,458	14,335,396	9,393,375
Noninstructional services	1,969,265	1,855,551	1,721,244	1,797,584
Sixteenth section	1,401	6,252	5,070	5,457
Facilities acquisition and construction	36,083,513	2,136,381	1,519,061	259,085
<b>Debt service:</b>				
Principal	2,430,000	3,007,520	1,993,397	15,913,996
Interest	736,062	820,619	909,614	1,154,722
Other	60,520			110,022
<b>Total Expenditures</b>	<b>71,818,682</b>	<b>41,759,141</b>	<b>38,661,188</b>	<b>44,353,986</b>
<b>Excess (Deficiency) of Revenues over Expenditures</b>	<b>(16,491,722)</b>	<b>(6,390,568)</b>	<b>6,284,247</b>	<b>(13,251,591)</b>
<b>Other Financing Sources (Uses):</b>				
Proceeds of refunding bonds	4,055,000			14,200,000
Premium on debt issuance	18,420			
Proceeds of loans	9,500,000			
Insurance loss recoveries	2,328,808	4,050,600	12,258,503	6,369
Sale of transportation equipment		2,650		
Operating transfers in	34,637,656	1,089,820	12,584,311	2,586,420
Operating transfers out	(34,637,656)	(1,089,820)	(12,584,311)	(2,586,420)
Other financing uses	(311)	(6,958)	(5,856)	(3,468)
Payment to refunded bond escrow agent	(3,940,000)			
<b>Total Other Financing Sources (Uses)</b>	<b>11,961,917</b>	<b>4,046,292</b>	<b>12,250,647</b>	<b>14,202,901</b>
<b>Net Change in Fund Balances</b>	<b>(4,529,805)</b>	<b>(2,344,276)</b>	<b>18,534,894</b>	<b>951,310</b>
<b>Fund Balances:</b>				
Fund balance, July 1	22,341,718	24,452,788	5,839,866	4,897,555
Prior period adjustments	(214,380)	221,886	(4,895)	
Fund balance, July 1, as restated	22,127,336	24,674,674	5,834,971	4,897,555
<b>Increase (Decrease) in reserve for inventory</b>	<b>(78,459)</b>	<b>11,318</b>	<b>82,923</b>	<b>(8,999)</b>
Fund balance, June 30	\$ 17,519,072	22,341,718	24,452,788	5,839,866

\*SOURCE - PRIOR YEAR AUDIT REPORTS

**REPORTS ON COMPLIANCE AND INTERNAL CONTROL**

**McDaniel CPA Firm**  
Certified Public Accountant / Financial Consultant

Scotty McDaniel, CPA

**MEMBER**  
Mississippi Society  
of Certified Public  
Accountants

**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**

October 15, 2009

Superintendent and School Board  
Hancock County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Hancock County School District as of and for the year ended June 30, 2008, which collectively comprise the Hancock County School District's basic financial statements and have issued our report thereon dated October 15, 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 a certain deficiency in the internal control over financial reporting that we consider to be a significant deficiency.

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 deficiency described in the accompanying schedule of findings and questioned costs as Finding 2008-1 to be a significant deficiency 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, we believe that the significant deficiency described above is not a material weakness.

#### **Compliance and Other Matters**

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

Hancock County School District's response to the finding identified in our audit is described in the accompanying Auditee's Corrective Action Plan. We did not audit Hancock 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, 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.

*McDaniel CPA Firm*

**McDaniel CPA Firm**  
Certified Public Accountant / Financial Consultant

Scotty McDaniel, CPA

MEMBER

Mississippi Society  
of Certified Public  
Accountants

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

October 15, 2009

Superintendent and School Board  
Hancock County School District

Compliance

We have audited the compliance of the Hancock County School District with the types of compliance requirements described in *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, 2008. 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, Hancock 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, 2008.

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### Internal Control Over Compliance

The management of the Hancock County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the school district's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over compliance.

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

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

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

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

*McDaniel CPA Firm*

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

October 15, 2009

Superintendent and School Board  
Hancock County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Hancock County School District as of and for the year ended June 30, 2008, which collectively comprise Hancock County School District's basic financial statements and have issued our report thereon dated October 15, 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 instance of noncompliance. The district reported \$ 9,318 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 ensure 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 did not disclose any instances of noncompliance with other state laws and regulations.

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

*McDaniel CPA Firm*

**HANCOCK COUNTY SCHOOL DISTRICT**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2008**

**Section 1: Summary of Auditor's Results**

**Financial Statements:**

- |     |   |             |
|-----|---|-------------|
| 1 . | Type of auditor's report issued on the financial statements:                                  | unqualified |
| 2 . | Material noncompliance relating to the financial statements:                                  | no          |
| 3 . | Internal control over financial reporting:  |             |
|     | a. Material weakness(es) identified?  | no          |
|     | b. 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?  | no            |
|      | b. Significant deficiency (ies) identified that are not considered to be material weaknesses?   | none reported |
| 6 .  | Any audit finding(s) reported as required by section ____ .510(a) of Circular A-133?  | no            |
| 7 .  | Federal programs identified as major programs:  |               |
|      | a. Special Education Cluster  |               |
|      | CFDA #: 84.027  |               |
|      | CFDA #: 84.173  |               |
|      | b. Title I grants to local educational agencies   |               |
|      | CFDA #: 84.010  |               |
|      | c. FEMA / MEMA Grant  |               |
|      | CFDA #: 97.036  |               |
| 8 .  | The dollar threshold used to distinguish between type A and type B programs:  | \$ 637,967    |
| 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? | no            |

Section 2: Financial Statement Findings

Significant Deficiency Not Considered to be a Material Weakness.

2008-1. Finding

The beginning fund balance of the general fund on the year-end financial statements did not equal the ending fund balance per the audit report from the prior year.

Recommendation

We recommend that the district when preparing the year-end financials verify that the beginning fund balance equals the ending fund balances per the prior year audit report.

Section 3: Federal Award Findings and Questioned Costs

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

## Auditee's Corrective Action Plan

### Financial Compliance & Audit Division

As required by Section \_\_.315(c) of OMB Circular A-133, the Hancock 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, 2008.

<u>Finding</u>	<u>Corrective Action Plan Details</u>
2008-1	<p>a. Name of Contact Persons Responsible for Corrective Action: Jon McGraw, Business Manager (228) 255-0376</p> <p>b. Corrective Action Planned: The district will implement procedures to ensure that beginning fund balances equal prior year ending balances.</p> <p>c. Anticipated Completion Date: Completed.</p>

## AUDITEE'S SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

As required by Section \_\_\_\_315(b) of OMB Circular A-133, the Hancock County School District has prepared and hereby submits the following summary schedule of prior audit findings as of June 30, 2008:

<u>Finding</u>	<u>Status</u>
2007-1	Corrective action taken.
2007-2	Corrective action taken.