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**Harrison County School District
Gulfport, Mississippi**

Financial Statements

June 30, 2008

**Harrison County School District
Gulfport, Mississippi**

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HARRISON COUNTY SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

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

Superintendent and School Board
Harrison County School District

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Harrison County School District as of and for the year ended June 30, 2008, which collectively comprise the Harrison County School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Harrison County School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Harrison County School District, as of June 30, 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 December 15, 2009, on our consideration of the Harrison County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 11 and the Budgetary Comparison Schedules and corresponding notes on pages 40 through 41 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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 Funds, 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.

Culumber, Fletcher, Harvey & associates, P.A.

Culumber, Fletcher, Harvey & Associates, P. A.

Biloxi, MS
December 15, 2009

HARRISON COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Harrison County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2008**

The discussion and analysis of Harrison County School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 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 notes to the basic financial statements and the 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 the 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 is an element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999. Certain comparative information between current year and prior year is required to be presented.

Financial Highlights

- Total net assets increased \$19,546,750 excluding the effect of a prior period adjustment of \$1,678,261, which represents a 22% increase primarily due to unspent capital project debt proceeds.
- General revenues account for \$85,622,460 in revenue, or 70% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$37,239,596 or 30% of total revenues.
- The District had \$103,315,306 in expenses; only \$37,239,596 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$85,622,460 were adequate to provide for these programs.
- Among major funds, the General Fund had \$76,098,129 in revenues and \$76,782,990 in expenditures. The General fund balance decreased \$1,549,216 from the prior year.
- Capital assets, net of depreciation and a prior period adjustment of \$502,920, increased by \$43,822,395, primarily due to the relocation and reconstruction of one high school severely damaged by Hurricane Katrina, and the construction of another new high school.
- Long-term debt decreased by \$421,478, excluding compensated absences, despite issuances of \$295,506 of shortfall notes, \$36,441 of capital leases, and \$2,500,000 of QZAB bonds.

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.

**Harrison County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2008**

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 included all assets and liabilities.

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

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

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

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

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

Governmental funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's current financing requirements. Governmental funds are reported using modified accrual accounting. This method of accounting measures cash and other assets that can be easily converted into 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 in Exhibit C-1 and D-1, respectively.

**Harrison County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2008**

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

The basic governmental fund financial statements can be found in Exhibit C and D 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 in Exhibit E.

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

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

Also, included in the 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 Balances, 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.

Governmental-wide Financial Analysis

Net assets – Net assets may serve over time as a useful indicator of government's financial position. In the District's case, assets exceeded liabilities by \$107,851,441 as of June 30, 2008.

In 2008, the District's net assets at June 30, reflected an amount of \$56,649,460 in its investment in capital assets (e.g. land, buildings, improvements other than buildings, mobile equipment, furniture and equipment, leased property under capital leases, and construction in progress), less any related debt used to acquire those assets that is still outstanding.

**Harrison County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2008**

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

The following table presents a summary of the District's net assets for the fiscal years ended June 30, 2008 and 2007.

| Condensed Statement of Net Assets | | | |
|--|----------------------|----------------------|--|
| | <u>June 30, 2008</u> | <u>June 30, 2007</u> | <u>Percentage Change 2007-2008</u> |
| Assets | | | |
| Current assets | \$ 70,014,352 | \$ 91,411,852 | -23.41% |
| Capital assets, net | 98,529,782 | 54,707,387 | 80.10% |
| Restricted assets | 4,527,898 | 3,125,954 | 44.85% |
| Total assets | 173,072,032 | 149,245,193 | 15.96% |
| Liabilities | | | |
| Current liabilities | 10,632,196 | 8,096,445 | 31.32% |
| Long-term debt outstanding | 54,588,395 | 54,522,318 | 0.12% |
| Total liabilities | 65,220,591 | 62,618,763 | 4.15% |
| Net assets | | | |
| Invested in capital assets, net of related debt | 56,649,460 | 21,532,280 | 163.09% |
| Restricted | 40,960,516 | 60,912,227 | -32.75% |
| Unrestricted | 10,241,465 | 4,181,923 | 144.90% |
| Total net assets | \$ 107,851,441 | \$ 86,626,430 | 24.50% |

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

- Cash and cash equivalents decreased \$28,719,786 from expenditures related to repairs and reconstruction of schools damaged by Hurricane Katrina, and the construction of a new high school.
- As a result of the relocation and reconstruction of D'Iberville High due to damage caused by Hurricane Katrina and the new construction of West Harrison High, the District increased capital assets by \$43,822,395 and related Investment in capital assets net of related debt in the amount of \$35,117,180 mainly from construction in progress of the two schools.

Changes in net assets – The District's total revenues for the fiscal year ended June 30, 2008 were \$122,862,056. The total cost of all programs and services was \$103,315,306. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2008 and 2007:

**Harrison County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2008**

| Changes in Net Assets | | | Percentage Change 2007-2008 |
|---|-----------------------|----------------------|--|
| | <u>June 30, 2008</u> | <u>June 30, 2007</u> | |
| Revenues | | | |
| Program revenues | | | |
| Charges for services | \$ 2,294,747 | \$ 28,281,732 | -91.89% |
| Operating & capital grants and contributions | 34,944,849 | 26,564,909 | 31.55% |
| General revenues | | | |
| Property and gaming taxes | 24,750,647 | 24,227,130 | 2.16% |
| Unrestricted grants and contributions | 55,912,980 | 50,788,028 | 10.09% |
| Other | 4,958,833 | 5,810,541 | -14.66% |
| Total revenues | <u>122,862,056</u> | <u>135,672,340</u> | -9.44% |
| Expenses | | | |
| Instruction | 58,288,030 | 57,974,908 | 0.54% |
| Support services | 36,205,660 | 36,611,398 | -1.11% |
| Non-instructional | 6,084,096 | 6,074,052 | 0.17% |
| Sixteenth section | 483,059 | 515,277 | -6.25% |
| Interest on long-term debt | 2,254,461 | 2,088,525 | 7.95% |
| Total expenses | <u>103,315,306</u> | <u>103,264,160</u> | 0.05% |
| Increase in net assets | <u>19,546,750</u> | <u>32,408,180</u> | -39.68% |
| Net Assets, July 1 | 86,626,430 | 54,235,645 | 59.72% |
| Prior Period Adjustments | 1,678,261 | (17,395) | 9747.95% |
| Net Assets, July 1, Restated | <u>88,304,691</u> | <u>54,218,250</u> | 62.87% |
| Net Assets, June 30 | <u>\$ 107,851,441</u> | <u>\$ 86,626,430</u> | 24.50% |

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

- Revenue decreased \$12,810,284 as a result of insurance loss recoveries received in the prior year.
- Prior period adjustments were a result of correcting debt refunding costs and state source receivables.

**Harrison County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2008**

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

Net Cost of Governmental Activities

| | <u>Total Expenses</u> | | Percentage |
|----------------------------|-----------------------|-----------------------|---------------------|
| | June 30, 2008 | June 30, 2007 | Change 2007-2008 |
| Instruction | \$ 58,288,030 | \$ 57,974,908 | 0.54% |
| Support services | 36,205,660 | 36,611,398 | -1.11% |
| Non-instructional | 6,084,096 | 6,074,052 | 0.17% |
| Sixteenth section | 483,059 | 515,277 | -6.25% |
| Interest on long-term debt | 2,254,461 | 2,088,525 | 7.95% |
| Total expenses | \$ 103,315,306 | \$ 103,264,160 | 0.05% |

| | <u>Net (Expense) revenue</u> | | Percentage |
|----------------------------|------------------------------|------------------------|---------------------|
| | June 30, 2008 | June 30, 2007 | Change 2007-2008 |
| Instruction | \$ (37,211,854) | \$ (23,462,644) | 58.60% |
| Support services | (27,635,788) | (23,869,107) | 15.78% |
| Non-instructional | 1,507,285 | 1,512,463 | -0.34% |
| Sixteenth section | (480,892) | (509,706) | -5.65% |
| Interest on long-term debt | (2,254,461) | (2,088,525) | 7.95% |
| Total expenses | \$ (66,075,710) | \$ (48,417,519) | 36.47% |

- Net cost of governmental activities \$66,075,710, was financed by general revenue, which is made up of primarily ad valorem taxes of \$23,036,844, gaming revenue of \$1,713,803, unrestricted grants and contributions of \$55,912,980, sixteenth section sources of \$1,900,755, and other sources of \$474,313.
- Investment earnings accounted for \$2,583,765.

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

**Harrison County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2008**

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 \$63,992,049, a decrease of \$22,342,708, which includes the decrease in inventory of \$58,537 and the effects of a prior period adjustment of \$1,771,163. This decrease was due primarily to increased expenditures related to repairs and reconstruction of schools severely damaged by Hurricane Katrina, and the construction of a new high school. The amount of \$20,130,481 or 31.46% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$43,861,568 or 68.54% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was \$1,549,216. The D'Iberville School Construction Fund balance decreased by \$20,611,367 from funding construction costs for the relocation and reconstruction of the D'Iberville High school severely damaged by Hurricane Katrina, and transferring funds to the West Harrison High School Fund for the construction of a new West Harrison High school.

Budgetary Highlights

Over the year, the District revised the annual operating budget as changes occurred. Significant budget revisions during the fiscal year are as follows:

The School District revised its budget to reflect an increase in local revenues and a decrease in state appropriations, along with a decrease in expected expenditures associated with revised payroll figures and a reduction in insurance premiums at the renewal date.

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

**Harrison County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2008**

Capital Assets and Debt Administration

Capital Assets – As of June 30, 2008, the District's total capital assets were \$134,538,959, including school buildings, buses, other school vehicles, furniture and equipment and construction in progress. This amount represents an increase of \$46,551,430 from the previous year primarily due to the relocation and reconstruction of one severely hurricane damaged high school, and the construction of another new high school. Total accumulated depreciation as of June 30, 2008 was \$36,009,177 and total depreciation expenses for the year was \$2,488,492, resulting in total net assets of \$98,529,782.

The following table shows capital assets for fiscal year 2008 compared to fiscal year 2007:

| | Capital Assets | | Percentage |
|--------------------------------------|--|----------------------|------------------|
| | <u>Capital Assets, Net of Depreciation</u> | | Change |
| | <u>June 30, 2008</u> | <u>June 30, 2007</u> | <u>2007-2008</u> |
| Land | \$ 2,818,343 | \$ 2,818,343 | 0.00% |
| Construction in progress | 50,304,387 | 6,844,103 | 635.00% |
| Buildings | 34,322,747 | 35,165,515 | -2.40% |
| Building improvements | 5,217,390 | 3,852,660 | 35.42% |
| Improvements other than buildings | 440,245 | 84,038 | 423.86% |
| Mobile equipment | 4,196,720 | 4,391,829 | -4.44% |
| Furniture and equipment | 928,633 | 1,276,496 | -27.25% |
| Leased property under capital leases | 301,317 | 274,403 | 9.81% |
| Total | <u>\$ 98,529,782</u> | <u>\$ 54,707,387</u> | 80.10% |

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

Debt Administration - At June 30, 2008 the District had \$53,453,705 in general obligation bonds and other long-term debt outstanding, excluding compensated absences, of which \$2,475,484 is due within one year.

**Harrison County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2008**

The following table shows outstanding debt for fiscal year 2008 compared to fiscal year 2007:

| | Outstanding Long-Term Debt | | Percentage Change 2007-2008 |
|---|---|----------------------|--|
| | <u>Outstanding Long-term Debt as of</u> | | |
| | <u>June 30, 2008</u> | <u>June 30, 2007</u> | |
| General obligation bonds | \$ 12,835,000 | \$ 13,955,000 | -8.03% |
| Limited obligation bonds | 14,205,000 | 15,155,000 | -6.27% |
| Three mill notes | 17,755,000 | 18,605,000 | -4.57% |
| Shortfall notes | 295,506 | - | n/a |
| Obligations under capital leases | 102,108 | 158,552 | -35.60% |
| Obligations under energy efficiency leases | 3,261,091 | 3,501,631 | -6.87% |
| Qualified zone academy bonds | 5,000,000 | 2,500,000 | 100.00% |
| Compensated absences | 794,275 | 905,430 | -12.28% |
| Total | <u>\$ 54,247,980</u> | <u>\$ 54,780,613</u> | -.97% |

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

Current Issues

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

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

Contacting the District's Financial Management

If you have questions about this report, contact the Business Office of the Harrison County School District, Highway 49, Gulfport, MS 39503

HARRISON COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS

Harrison County School District
Statement of Net Assets
June 30, 2008

| | | Governmental Activities |
|--|----|----------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ | 57,520,418 |
| Due from other governments | | 11,523,215 |
| Other receivables, net | | 240,921 |
| Inventories and prepaid items | | 163,002 |
| Bond issuance costs and amounts deferred due to advance refunding (net of accumulated amortization) | | 566,796 |
| Restricted assets | | 4,527,898 |
| Capital assets, not being depreciated: | | |
| Land | | 2,818,343 |
| Construction in progress | | 50,304,387 |
| Capital assets, net of accumulated depreciation: | | |
| Buildings | | 34,322,747 |
| Building Improvements | | 5,217,390 |
| Improvements other than buildings | | 440,245 |
| Mobile equipment | | 4,196,720 |
| Furniture and equipment | | 928,633 |
| Leased property under capital leases | | 301,317 |
| Total assets | | 173,072,032 |
| LIABILITIES | | |
| Accounts payable and accrued liabilities | | 9,754,455 |
| Unearned revenue | | 228,950 |
| Interest payable on long-term liabilities | | 648,750 |
| Deferred charges on refunding debt | | (684,120) |
| Deferred premiums and discounts | | 1,024,576 |
| Long-term liabilities (due within one year) | | |
| Capital-related liabilities | | 2,225,169 |
| Non-capital related liabilities | | 268,424 |
| Long-term liabilities (due beyond one year) | | |
| Capital-related liabilities | | 47,671,939 |
| Non-capital liabilities | | 4,082,448 |
| Total liabilities | | 65,220,591 |
| NET ASSETS | | |
| Invested in capital assets (net of related debt) | | 56,649,460 |
| Restricted net assets | | |
| Expendable: | | |
| School-based activities | | 5,767,812 |
| Debt service | | 2,776,962 |
| Capital improvements | | 30,219,228 |
| Forestry improvements | | 143,015 |
| Unemployment benefits | | 252,636 |
| Nonexpendable: | | |
| Sixteenth section | | 1,800,863 |
| Unrestricted | | 10,241,465 |
| Total net assets | \$ | 107,851,441 |

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

Exhibit B

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

| Functions/Programs | Expenses | Charges for Services | Program Revenues | | Net (Expense) Revenue and Changes in Net Assets |
|-----------------------------------|----------------|----------------------|------------------------------------|----------------------------------|---|
| | | | Operating Grants and Contributions | Capital Grants and Contributions | |
| Governmental Activities: | | | | | |
| Instruction | \$ 58,288,030 | \$ 614,989 | \$ 6,696,279 | \$ 13,764,908 | \$ (37,211,854) |
| Support services | 36,205,660 | 88,357 | 4,548,684 | 3,932,831 | (27,635,788) |
| Non-instructional | 6,084,096 | 1,589,234 | 4,035,732 | 1,966,415 | 1,507,285 |
| Sixteenth section | 483,059 | 2,167 | - | - | (480,892) |
| Interest on long-term liabilities | 2,254,461 | - | - | - | (2,254,461) |
| Total governmental activities | \$ 103,315,306 | \$ 2,294,747 | \$ 15,280,695 | \$ 19,664,154 | \$ (66,075,710) |

General Revenues:

| | |
|--|----------------|
| Taxes: | |
| General purpose levies | 20,399,018 |
| Debt purpose levies | 2,637,826 |
| Gaming | 1,713,803 |
| Unrestricted grants and contributions: | |
| State | 54,198,906 |
| Federal | 1,714,074 |
| Unrestricted investment earnings | 2,583,765 |
| Sixteenth section sources | 1,900,755 |
| Other | 474,313 |
| Total general revenues | 85,622,460 |
| Change in Net Assets | 19,546,750 |
| Net Assets - Beginning | 86,626,430 |
| Prior Period Adjustments | 1,678,261 |
| Net Assets - Beginning - Restated | 88,304,691 |
| Net Assets - Ending | \$ 107,851,441 |

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

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

| | Major Funds | | | | | Other Governmental Funds | Total Governmental Funds |
|-------------------------------|---------------|-------------------|------------------------|--------------------------------------|--------------------------------|--------------------------|--------------------------|
| | General Fund | Special Note Fund | Building Projects Fund | D'Iberville School Construction Fund | West Harrison High School Fund | | |
| ASSETS | | | | | | | |
| Cash and cash equivalents | \$ 9,509,975 | \$ 7,413,496 | \$ 24,130,823 | \$ 5,555,257 | \$ 2,014,945 | \$ 10,696,785 | \$ 59,321,281 |
| Cash with fiscal agents | | | | | | 2,090 | 2,090 |
| Investments | 1,260,161 | 1,635 | - | 5,347,571 | 2,361,313 | 2,724,945 | 2,724,945 |
| Due from other governments | 18,552 | - | - | - | - | 2,552,535 | 11,523,215 |
| Other receivables | - | 749,927 | - | - | - | 222,369 | 240,921 |
| Due from other funds | - | - | - | - | - | 195,886 | 945,813 |
| Inventories and prepaid items | 5,942 | - | - | - | - | 157,060 | 163,002 |
| Total assets | \$ 10,794,630 | \$ 8,165,058 | \$ 24,130,823 | \$ 10,902,828 | \$ 4,376,258 | \$ 16,551,670 | \$ 74,921,267 |

LIABILITIES & FUND BALANCES

Liabilities:

| | | | | | | | |
|--|--------------|------|------|--------------|--------------|------------|--------------|
| Accounts payable & accrued liabilities | \$ 4,389,339 | \$ - | \$ - | \$ 2,416,871 | \$ 2,555,847 | \$ 392,398 | \$ 9,754,455 |
| Due to other funds | 44,678 | - | - | - | - | 901,135 | 945,813 |
| Unearned revenue | - | - | - | - | - | 228,950 | 228,950 |
| Total liabilities | 4,434,017 | - | - | 2,416,871 | 2,555,847 | 1,522,483 | 10,929,218 |

Fund balances:

Reserved for:

| | | | | | | | |
|--------------------------------|-------|---|------------|-----------|-----------|-----------|------------|
| Unemployment benefits | - | - | - | - | - | 252,636 | 252,636 |
| Prepaid items | 5,942 | - | - | - | - | - | 5,942 |
| Inventory | - | - | - | - | - | 157,060 | 157,060 |
| Capital projects | - | - | 24,130,823 | 8,485,957 | 1,820,411 | 3,639,149 | 38,076,340 |
| Forestry improvements purposes | - | - | - | - | - | 143,015 | 143,015 |
| Permanent funds | - | - | - | - | - | 1,800,863 | 1,800,863 |
| Debt service | - | - | - | - | - | 3,425,712 | 3,425,712 |

Unreserved:

Undesignated, reported in:

| | | | | | | | |
|-----------------------------------|---------------|--------------|---------------|---------------|--------------|---------------|---------------|
| General fund | 6,354,671 | - | - | - | - | - | 6,354,671 |
| Special revenue funds | - | 8,165,058 | - | - | - | 5,610,752 | 13,775,810 |
| Total fund balances | 6,360,613 | 8,165,058 | 24,130,823 | 8,485,957 | 1,820,411 | 15,029,187 | 63,992,049 |
| Total liabilities & fund balances | \$ 10,794,630 | \$ 8,165,058 | \$ 24,130,823 | \$ 10,902,828 | \$ 4,376,258 | \$ 16,551,670 | \$ 74,921,267 |

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

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

| | Amount |
|---|----------------|
| Total Fund Balance - Governmental Funds | \$ 63,992,049 |
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| 1 Capital assets are used in governmental activities and are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$36,009,177 | 98,529,782 |
| 2 Long-term liabilities are not due and payable in the current and therefore are not reported in the funds. | (54,247,980) |
| 3 Governmental funds recognize interest on long-term debt when it becomes due, however the Statement of Net Assets recognizes interest as it accrues. | (648,750) |
| 4 Governmental funds focus on increases and decreases in current financial resources and deferred charges are not current financial resources so are not reflected in the funds: | |
| Deferred bond issuance costs | \$ 566,796 |
| Deferred charges on refunding debt | 617,454 |
| Deferred charges on bond discounts | 13,536 |
| Deferred charges on bond premiums | (1,038,112) |
| Advanced refunding escrow | 66,666 |
| | 226,340 |
| Total Net Assets - Governmental Activities | \$ 107,851,441 |

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

Harrison County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances For Governmental Funds
For the Year Ended June 30, 2008

| | Major Funds | | | | | Other Governmental Funds | Total Governmental Funds |
|---|---------------|-------------------|------------------------|--------------------------------------|--------------------------------|--------------------------|--------------------------|
| | General Fund | Special Note Fund | Building Projects Fund | D'Iberville School Construction Fund | West Harrison High School Fund | | |
| REVENUES | | | | | | | |
| Local sources | \$ 21,516,758 | \$ 244,645 | \$ 1,086,918 | \$ 760,684 | \$ - | \$ 6,720,776 | \$ 30,329,781 |
| State sources | 53,636,608 | - | - | - | - | 2,280,845 | 55,917,453 |
| Federal sources | 944,763 | - | - | 15,625,200 | 4,038,954 | 13,858,284 | 34,467,201 |
| Sixteenth section revenue | - | - | - | - | - | 1,902,922 | 1,902,922 |
| Total revenues | 76,098,129 | 244,645 | 1,086,918 | 16,385,884 | 4,038,954 | 24,762,827 | 122,617,357 |
| EXPENDITURES | | | | | | | |
| Instruction | 49,224,567 | - | - | - | - | 8,162,424 | 57,386,991 |
| Support services | 27,080,736 | 87,902 | 451,253 | - | - | 7,501,707 | 35,121,598 |
| Noninstructional services | 5,344 | - | - | - | - | 6,042,712 | 6,048,056 |
| Sixteenth section | - | - | - | - | - | 483,059 | 483,059 |
| Facilities acquisition and construction | - | - | 374,080 | 24,467,710 | 19,748,084 | 603,361 | 45,193,235 |
| Debt Service: | | | | | | | |
| Principal | 333,425 | - | - | - | - | 2,920,000 | 3,253,425 |
| Interest | 138,918 | - | 432,525 | - | - | 1,437,956 | 2,009,399 |
| Bond Issuance Costs | - | - | - | - | - | 53,575 | 53,575 |
| Total expenditures | 76,782,990 | 87,902 | 1,257,858 | 24,467,710 | 19,748,084 | 27,204,794 | 149,549,338 |
| Excess (deficiency) of revenues over expenditures | (684,861) | 156,743 | (170,940) | (8,081,826) | (15,709,130) | (2,441,967) | (26,931,981) |

**Harrison County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances For Governmental Funds
For the Year Ended June 30, 2008**

| | Major Funds | | | | | Other Govern- mental Funds | Total Governmental Funds |
|--|-----------------|----------------------|---------------------------|--|--------------------------------------|----------------------------------|--------------------------------|
| | General Fund | Special Note Fund | Building Projects Fund | D'Iberville School Con- struction Fund | West Harrison High School Fund | | |
| OTHER FINANCING SOURCES (USES) | | | | | | | |
| Proceeds of debt issuance | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 2,795,506 | \$ 2,795,506 |
| Inception of capital leases | 36,441 | - | - | - | - | - | 36,441 |
| Proceeds of refunding bonds | - | - | - | - | - | - | - |
| Payments held by escrow agents | - | - | - | - | - | 200,000 | 200,000 |
| Sale of surplus property | 44,700 | - | - | - | - | - | 44,700 |
| Transfers in | 872,632 | 1,099,460 | - | 3,960,327 | 18,489,868 | 1,953,899 | 26,376,186 |
| Transfers out | (1,818,128) | - | (5,000,000) | (16,489,868) | (960,327) | (2,107,863) | (26,376,186) |
| Payment to QZAB escrow agent | - | - | - | - | - | (200,000) | (200,000) |
| Total other financing sources and uses | (864,355) | 1,099,460 | (5,000,000) | (12,529,541) | 17,529,541 | 2,641,542 | 2,876,647 |
| Net change in fund balances | (1,549,216) | 1,256,203 | (5,170,940) | (20,611,367) | 1,820,411 | 199,575 | (24,055,334) |
| Fund Balances: | | | | | | | |
| July 1, 2007 | 7,909,829 | 6,908,855 | 29,301,763 | 29,097,324 | - | 13,116,986 | 86,334,757 |
| Prior period adjustment | - | - | - | - | - | 1,771,163 | 1,771,163 |
| July 1, 2007, restated | 7,909,829 | 6,908,855 | 29,301,763 | 29,097,324 | - | 14,888,149 | 88,105,920 |
| Decrease in reserve for inventory | - | - | - | - | - | (58,537) | (58,537) |
| June 30, 2008 | \$ 6,360,613 | \$ 8,165,058 | \$ 24,130,823 | \$ 8,485,957 | \$ 1,820,411 | \$ 15,029,187 | \$ 63,992,049 |

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

**Harrison County School District
 Reconciliation of the Governmental Funds Statement of Revenues,
 Expenditures and Changes in Fund Balances to the Statement of Activities
 For the Year Ended June 30, 2008**

| | Amount |
|---|-----------------|
| Net change in fund balances - governmental funds | \$ (24,055,334) |
| 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 \$45,808,807 and the depreciation expense amounted to \$2,488,492. | 43,320,315 |
| 2 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 activity. | 3,253,425 |
| 3 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. | (2,831,947) |
| 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. | (176,441) |
| 5 Governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. | |
| QZAB bond issuance cost | \$ 53,575 |
| Amortization of bond issuance costs | (65,690) |
| Amortization of amounts deferred due to refunding | (97,286) |
| Amortization of bond discounts | (3,384) |
| Amortization of bond premiums | 114,406 |
| Amortization of advance refunding escrow | (16,667) |
| | (15,046) |
| 6 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 | 111,155 |
| 7 Gains and losses on the sale or disposals of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds. | (840) |
| 8 Decrease in inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are increased in the Statement of Activities. | (58,537) |
| Change in net assets of governmental activities | \$ 19,546,750 |

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

Exhibit E

Harrison County School District
Statement of Fiduciary Assets and Liabilities
June 30, 2008

| | <u>Agency Funds</u> |
|---------------------------|--------------------------|
| Assets | |
| Cash and cash equivalents | <u>\$ 201,324</u> |
| Total Assets | <u><u>\$ 201,324</u></u> |
| Liabilities | |
| Due to student clubs | <u>\$ 201,324</u> |
| Total Liabilities | <u><u>\$ 201,324</u></u> |

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

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2008

Note 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 Standard Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles. The most significant of the School District's accounting policies are described below.

A. Financial Reporting Entity

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

As defined by accounting principles generally accepted in the United States of America, the School District is considered a "primary government." The school district is governed by a five-member board to which each member was elected by the citizens of each defined county district.

B. Basis of Presentation

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

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities 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 preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2008

Note 1 – Summary of Significant Accounting Policies (Continued)

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 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 other governmental funds.

The school district reports the following major governmental funds:

General Fund - This is the school district's primary operating fund. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support, and other costs.

Special Note Fund – This fund is used to account for the transfer of unrestricted interest earnings from the 16th section principal funds.

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

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

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

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

Additionally, the School District reports the following fund types:

GOVERNMENTAL FUNDS

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

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

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2008

Note 1 – Summary of Significant Accounting Policies (Continued)

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 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.

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.

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2008

Note 1 – Summary of Significant Accounting Policies (Continued)

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 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

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.

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2008

Note 1 – Summary of Significant Accounting Policies (Continued)

For accounting purposes, certificates of deposit are classified as investments if they have a maturity greater than 3 months when acquired. Investments 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 in both the government-wide and governmental fund financial statements.

5. Restricted Assets

Certain resources set aside for repayment of debt are classified as restricted assets on the statement of net assets 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 16th 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 applicable governmental or business type activities columns 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 school 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.

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2008

Note 1 – Summary of Significant Accounting Policies (Continued)

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:

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

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

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 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

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.

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2008

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2008

Note 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 districts' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

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

Cash and Cash Equivalents

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$59,321,281, and \$201,324, respectively. The carrying amounts reported in the government-wide statements the bank balance was: Cash and cash equivalents \$57,520,418 and restricted assets of \$4,527,898. The bank balance was \$63,381,904.

Custodial credit risk – Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the school district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The school district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the school district. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the school district. As of June 30, 2008, none of the school district's bank balance of \$63,381,904 was exposed to custodial credit risk.

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2008

Note 2 - Cash and Cash Equivalents, Cash with Fiscal Agents, and Investments (Continued)

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> |
|--|------------------------------|---------------------|---------------|
| Federal National Mortgage Assoc. Notes | Less than 1 | \$ 1,096,912 | not rated |
| Federal Home Loan Mortgage Corp | Less than 1 | 529,770 | not rated |
| Hancock Horizon Treasury Securities | Less than 1 | <u>1,098,263</u> | Aaa |
| | | <u>\$ 2,724,945</u> | |

Interest Rate Risk. The school 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 school 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 school district will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The school district does not have a formal investment policy that addresses custodial credit risk. The investment in the Hancock Horizon Treasury Securities Money Market Mutual fund is uninsured and unregistered and is not backed by the full faith and credit of the federal government.

Note 3 – Interfund Receivables, Payables and Transfers

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds

| Governmental Funds: | <u>Due From</u> | <u>Due To</u> |
|---------------------------|-------------------|-------------------|
| General Fund | \$ - | \$ 44,678 |
| Special Note Fund | 749,927 | - |
| Other Governmental Funds: | <u>195,886</u> | <u>901,135</u> |
| Total | <u>\$ 945,813</u> | <u>\$ 945,813</u> |

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

B. Transfers In/ Out.

| Governmental Funds: | <u>Transfers In</u> | <u>Transfers Out</u> |
|--------------------------------------|----------------------|----------------------|
| General Fund | \$ 872,632 | \$ 1,818,128 |
| Special Note Fund | 1,099,460 | - |
| D'Iberville School Construction Fund | 3,960,327 | 16,489,868 |
| West Harrison High School Fund | 18,489,868 | 960,327 |
| Building Projects Fund | - | 5,000,000 |
| Other Governmental Funds: | <u>1,953,899</u> | <u>2,107,863</u> |
| Total | <u>\$ 26,376,186</u> | <u>\$ 26,376,186</u> |

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2008

Note 3 – Interfund Receivables, Payables and Transfers (Continued)

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

Note 4 - Restricted Assets

The restricted assets, totaling \$4,527,898, include the cash balance of \$1,800,863 of Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs. Also, the restricted assets include the cash with fiscal agents and investment balance, totaling \$2,090 and \$1,626,682, respectively, of the QZAB Bond Requirement Fund, and also the investment balance of \$1,098,263 of the MAEP Limited Obligation Bond Fund.

Note 5 – Capital Assets

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

| Governmental Activities: | Balance 7/1/2007 | Additions | Retirements | Completed Construction | Adjustments | Balance 6/30/2008 |
|--|-----------------------------|----------------------|--------------------|-----------------------------------|--------------------|------------------------------|
| Non-depreciable capital assets: | | | | | | |
| Land | \$ 2,818,343 | | | | | \$ 2,818,343 |
| Construction in progress | 6,844,103 | 45,193,235 | | (1,732,951) | | 50,304,387 |
| Total non-depreciable capital assets | 9,662,446 | 45,193,235 | - | (1,732,951) | - | 53,122,730 |
| Depreciable capital assets: | | | | | | |
| Buildings | 55,950,560 | - | | 111,117 | | 56,061,677 |
| Building improvements | 5,079,501 | - | | 1,621,834 | | 6,701,335 |
| Improvements other than buildings | 260,138 | 374,080 | | | | 634,218 |
| Mobile equipment | 11,482,283 | 37,630 | (5,942) | | 713,472 | 12,227,443 |
| Furniture and equipment | 4,974,349 | 167,421 | (24,550) | | 34,725 | 5,151,945 |
| Leased property under capital leases | 578,252 | 36,441 | | | 24,918 | 639,611 |
| Total depreciable capital assets | 78,325,083 | 615,572 | (30,492) | 1,732,951 | 773,115 | 81,416,229 |
| Less accumulated depreciation for: | | | | | | |
| Buildings | 20,785,045 | 953,885 | | | | 21,738,930 |
| Building improvements | 1,226,841 | 257,104 | | | | 1,483,945 |
| Improvements other than buildings | 176,100 | 17,873 | | | | 193,973 |
| Mobile equipment | 7,090,454 | 688,767 | (5,347) | | 256,849 | 8,030,723 |
| Furniture and equipment | 3,697,853 | 539,942 | (24,305) | | 9,822 | 4,223,312 |
| Leased property under capital leases | 303,849 | 30,921 | | | 3,524 | 338,294 |
| | 33,280,142 | 2,488,492 | (29,652) | - | 270,195 | 36,009,177 |
| Total depreciable capital assets, net | 45,044,941 | (1,872,920) | (840) | 1,732,951 | 502,920 | 45,407,052 |
| Governmental activities capital assets, net | \$ 54,707,387 | \$ 43,320,315 | \$ (840) | \$ - | \$ 502,920 | \$ 98,529,782 |

*Adjustments are a result of a correction from a physical inventory observation by the district.

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2008

Note 5 – Capital Assets (Continued)

Depreciation expense was charged to the following governmental functions:

| | Amount |
|----------------------------|--------------|
| Instruction | \$ 1,062,035 |
| Support services | 1,312,535 |
| Non-instructional | 113,922 |
| Total depreciation expense | \$ 2,488,492 |

Commitments under construction contracts at June 30, 2008, are summarized as follows:

| | Spent to June 30, 2008 | Remaining Commitment |
|---------------------------|---------------------------|-------------------------|
| D'Iberville High School | \$ 27,749,522 | \$ 7,588,178 |
| West Harrison High School | 22,554,865 | 10,287,183 |
| Total | \$ 50,304,387 | \$ 17,875,361 |

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

Note 6 – Long-term Liabilities

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

| | Balance 7/1/2007 | Additions | Reductions | Adjustments* | Balance 6/30/2008 | Amount due within one year |
|--|---------------------|--------------|--------------|--------------|----------------------|----------------------------------|
| A. General obligation bonds | \$ 13,955,000 | \$ - | \$ 1,120,000 | \$ - | \$ 12,835,000 | \$ 1,160,000 |
| Add deferred amounts: | | | | | | |
| For issuance premiums | 919,086 | | 102,119 | | 816,967 | |
| Less deferred amounts: | | | | | | |
| On refunding | (513,699) | | (57,078) | | (456,621) | |
| Total general obligation bonds | 14,360,387 | - | 1,165,041 | - | 13,195,346 | 1,160,000 |
| B. Limited obligations bonds | 15,155,000 | - | 950,000 | | 14,205,000 | 995,000 |
| Less deferred amounts: | | | | | | |
| For issuance premiums | (16,920) | | (3,384) | | (13,536) | |
| Advance refunding escrow | (679,155) | | (16,667) | (595,822) | (66,666) | |
| On refunding | (201,041) | | (40,208) | | (160,833) | |
| Total limited obligation bonds | 14,257,884 | - | 889,741 | (595,822) | 13,963,965 | 995,000 |
| C. Three mill notes | 18,605,000 | - | 850,000 | | 17,755,000 | - |
| Add deferred amounts: | | | | | | |
| For issuance premiums | 233,434 | | 12,286 | | 221,148 | |
| Total three mill notes | 18,838,434 | - | 862,286 | - | 17,976,148 | - |
| D. Shortfall notes | - | 295,506 | | | 295,506 | - |
| E. Obligations under capital leases | 158,552 | 36,441 | 92,885 | | 102,108 | 70,169 |
| F. Obligations under energy efficiency lease | 3,501,631 | - | 240,540 | | 3,261,091 | 250,315 |
| G. Qualified zone academy bonds | 2,500,000 | 2,500,000 | - | | 5,000,000 | - |
| H. Compensated absences | 905,430 | - | 111,155 | | 794,275 | 18,109 |
| Total | \$ 54,522,318 | \$ 2,831,947 | \$ 3,361,648 | \$ (595,822) | \$ 54,588,439 | \$ 2,493,593 |

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2008

Note 6 – Long-term Liabilities (Continued)

*Adjustments are the result of a correction in recording a deferred amount on refunding in the prior year.

A. General obligation bonds payable:

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

| Description | Interest Rate | Issue Date | Maturity Date | Amount Issued | Amount Outstanding |
|-------------|---------------|------------|---------------|----------------------|----------------------|
| Series 2005 | 3.25% -5.0% | 7/5/2005 | 3/3/2017 | <u>\$ 13,955,000</u> | <u>\$ 12,835,000</u> |

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

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|----------------------|---------------------|----------------------|
| 2009 | \$ 1,160,000 | \$ 600,363 | \$ 1,760,363 |
| 2010 | 1,205,000 | 562,665 | 1,767,665 |
| 2011 | 1,270,000 | 523,500 | 1,793,500 |
| 2012 | 1,340,000 | 460,000 | 1,800,000 |
| 2013 | 1,400,000 | 393,000 | 1,793,000 |
| 2014-2017 | <u>6,460,000</u> | <u>829,250</u> | <u>7,289,250</u> |
| Total | <u>\$ 12,835,000</u> | <u>\$ 3,368,778</u> | <u>\$ 16,203,778</u> |

The amount of bonded indebtedness that can be incurred by the school district is limited by state statute. Total outstanding bonding indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such a district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in state statutes has been met. As of June 30, 2008, the amount of outstanding bonded indebtedness was equal to 9% of property assessments as of October 1, 2007. This debt will be retired from the Debt Service Fund.

B. Limited obligation bonds payable

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

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2008

Note 6 – Long-term Liabilities (Continued)

| Description | Interest Rate | Issue Date | Maturity Date | Amount Issued | Amount Outstanding |
|--|---------------|------------|---------------|----------------------|----------------------|
| State aid capital improvement bonds Series 1998 | 4.4-6.25% | 5/1/1998 | 2/1/2018 | \$ 19,520,000 | \$ 4,295,000 |
| State aid capital improvement refunding bonds, Series 2006 | 3.625-5.0% | 2/1/2007 | 2/1/2018 | <u>9,910,000</u> | <u>9,910,000</u> |
| Total | | | | <u>\$ 29,430,000</u> | <u>\$ 14,205,000</u> |

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

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|----------------------|---------------------|----------------------|
| 2009 | \$ 995,000 | \$ 550,932 | \$ 1,545,932 |
| 2010 | 1,045,000 | 505,032 | 1,550,032 |
| 2011 | 1,100,000 | 456,219 | 1,556,219 |
| 2012 | 1,260,000 | 401,677 | 1,661,677 |
| 2013 | 1,320,000 | 346,034 | 1,666,034 |
| 2014-2018 | <u>8,485,000</u> | <u>917,716</u> | <u>9,402,716</u> |
| Total | <u>\$ 14,205,000</u> | <u>\$ 3,177,610</u> | <u>\$ 17,382,610</u> |

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

C. Three mill notes payable.

Debt currently outstanding is as follows:

| Description | Interest Rate | Issue Date | Maturity Date | Amount Issued | Amount Outstanding |
|-----------------------|---------------|------------|---------------|----------------------|----------------------|
| Three mill note, 2007 | 4.0-5.0% | 6/22/2007 | 6/1/2027 | <u>\$ 17,755,000</u> | <u>\$ 17,755,000</u> |

**Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2008**

Note 6 – Long-term Liabilities (Continued)

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

| Year Ending June, 30 | Principal | Interest | Total |
|-------------------------|----------------------|---------------------|----------------------|
| 2009 | \$ 0 | \$ 788,069 | \$ 788,069 |
| 2010 | 300,000 | 782,069 | 1,082,069 |
| 2011 | 675,000 | 762,569 | 1,437,569 |
| 2012 | 700,000 | 735,069 | 1,435,069 |
| 2013 | 735,000 | 706,369 | 1,441,369 |
| 2014-2018 | 4,120,000 | 3,059,344 | 7,179,344 |
| 2019-2023 | 5,055,000 | 2,096,647 | 7,151,647 |
| 2024-2027 | 6,170,000 | 714,823 | 6,884,823 |
| Total | <u>\$ 17,755,000</u> | <u>\$ 9,644,959</u> | <u>\$ 27,399,959</u> |

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

D. Shortfall notes payable.

Debt currently outstanding is as follows:

| Description | Interest Rate | Issue Date | Maturity Date | Amount Issued | Amount Outstanding |
|-------------------------|------------------|---------------|------------------|-------------------|-----------------------|
| Community Disaster Loan | 3.12% | 9/30/2007 | 9/30/2012 | <u>\$ 295,506</u> | <u>\$ 295,506</u> |

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

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|-------------------|------------------|-------------------|
| 2012 | <u>\$ 295,506</u> | <u>\$ 45,972</u> | <u>\$ 341,478</u> |

In the fiscal year 2008, the school district borrowed \$295,506 from the U. S. Department of Homeland Security (FEMA) under the Community Disaster Loan program. This is a shortfall note and its purpose was to provide funds for a shortfall in the local budget that was caused because of damages to properties and tax assessments and related tax collections as a result of Hurricane Katrina in August 2005. Payments on the loan are deferred for a five year period. This debt will be retired from the District Maintenance Fund.

Pursuant to HR 2206 – Public Law 110-28, FEMA may allow forgiveness of Community Disaster Loans in Presidentially declared disaster areas on a case by case basis.

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2008

Note 6 – Long-term Liabilities (Continued)

E. Obligations under capital leases.

The school district has entered into seven lease agreements that qualify as capital leases for accounting purposes. Leased property under these leases is composed of Copiers, Digital Key System, and Duplicators. Each of these leases contains bargain purchase options.

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

| Year Ending June 30, | Principal | Interest and Maintenance | Total |
|-------------------------|-------------------|-----------------------------|-------------------|
| 2009 | \$ 70,169 | \$ 1,978 | \$ 72,147 |
| 2010 | 8,022 | 1,144 | 9,166 |
| 2011 | 7,228 | 825 | 8,053 |
| 2012 | 7,523 | 530 | 8,053 |
| 2013 | 7,830 | 223 | 8,053 |
| 2014 | 1,336 | 7 | 1,343 |
| Total | <u>\$ 102,108</u> | <u>\$ 4,707</u> | <u>\$ 106,815</u> |

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

F. Obligations under energy efficiency lease.

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

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|---------------------|-------------------|---------------------|
| 2009 | \$ 250,315 | \$ 125,573 | \$ 375,888 |
| 2010 | 260,487 | 115,401 | 375,888 |
| 2011 | 271,072 | 104,815 | 375,887 |
| 2012 | 282,088 | 93,799 | 375,887 |
| 2013 | 293,551 | 82,336 | 375,887 |
| 2014-2018 | 1,656,694 | 222,743 | 1,879,437 |
| 2019-2022 | 246,884 | 3,708 | 250,592 |
| Total | <u>\$ 3,261,091</u> | <u>\$ 748,375</u> | <u>\$ 4,009,466</u> |

An energy efficiency lease agreement dated June 15, 2004, was executed by and between the district, the lessee, and Hancock Bank, the lessor. The agreement authorized the borrowing of \$4,168,343 for the purchase of energy efficiency equipment, machinery, supplies, building modifications and other energy saving items. Payments of the lease shall not exceed (15) years and will be retired from the District Maintenance Fund.

Harrison County School District
Notes to Financial Statement
For the Year Ended June 30, 2008

Note 6 – Long-term Liabilities (Continued)

The district entered into this energy efficiency lease agreement under the authority of Section 31-7-14, Miss. Code Ann. (1972). Upon written notice to the lessor, the lessee has the option of repaying the total amount due as set forth by the agreement.

G. Qualified zone academy bonds payable.

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

| Description | Interest Rate | Issue Date | Maturity Date | Amount Issued | Amount Outstanding |
|---------------|---------------|------------|---------------|---------------------|---------------------|
| Series 2001 | N/A | 5/15/2001 | 5/15/2011 | \$ 606,000 | \$ 606,000 |
| Series 2004-B | N/A | 5/3/2004 | 5/3/2014 | 1,894,000 | 1,894,000 |
| Series 2008 | N/A | 6/17/2008 | 6/17/2020 | 2,500,000 | 2,500,000 |
| Total | | | | <u>\$ 5,000,000</u> | <u>\$ 5,000,000</u> |

This debt will be retired from the QZAB 2001 Debt Retirement Fund, the QZAB 2004 Debt Retirement Fund, and the QZAB 2008 Debt Retirement Fund.

H. 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), Miss. Code Ann. (1972). Compensated absences will be paid from the fund from which the employees' salaries were paid.

Note 7 – Defined Benefit Pension Plan

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

Funding Policy: PERS members are required to contribute 7.25% of their annual covered salary, and the School District is required to contribute at an actuarially determined rate. Effective July 1, 2007, the prior year rate of 11.30% was increased to 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 School district's contributions to PERS for the fiscal years ending June 30, 2008, 2007 and 2006 were \$6,772,070, \$5,974,289 and \$5,575,669, respectively, which equaled the required contributions for each year.

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2008

Note 8 – Other Commitments

Commitments under construction contracts are described in Note 5.

Commitments under re-roofing and renovation contracts amounted to \$3,096,575.

The school district has operating leases for copiers and a digital mailing machine. Lease expenditures for the year ended June 30, 2008 amounted to \$42,747. Future lease payments for these leases are as follows

| Year Ending June 30, | Amount |
|-------------------------|-----------|
| 2009 | \$ 46,839 |
| 2010 | 13,612 |
| 2011 | 4,092 |
| 2012 | 4,092 |
| 2013 | 4,092 |
| Total | \$ 72,727 |

Note 9 – Sixteenth Section Lands

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

| Year Ending June 30 | Amount |
|------------------------|----------------|
| 2009 | \$ 1,832,186 |
| 2010 | 1,734,400 |
| 2011 | 1,754,849 |
| 2012 | 1,804,423 |
| 2013 | 1,842,754 |
| 2014-2018 | 10,391,426 |
| 2019-2023 | 12,920,613 |
| 2024-2028 | 16,012,923 |
| 2029-2033 | 19,996,781 |
| Thereafter | 51,907,626 |
| Total | \$ 120,197,981 |

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2008

Note 10 – Prior period adjustments

A summary of significant fund equity adjustments is as follows:

| <u>Explanations</u> | <u>Major Funds</u> | <u>Amount</u> |
|--|--------------------|---------------------|
| 1 Correct understatement of receivable from state | Other Governmental | \$ 852,534 |
| 2 Correct overstatement of debt refinancing costs | Other Governmental | 714,985 |
| 3 Correct overstatement of interest expense | Other Governmental | 191,611 |
| 4 Correct understatement of interest income | Other Governmental | <u>12,033</u> |
| Exhibit D - Statement of Revenues, Expenditures, and Changes in Fund Balances | | \$ 1,771,163 |
| 5 Correct deferred debt refinancing charges and accumulated amortization | | (595,822) |
| 6 Adjust capital assets and accumulated depreciation balances at year end | | <u>502,920</u> |
| Exhibit B - Statement of Activities | | <u>\$ 1,678,261</u> |

Note 11 – Risk Management & Contingencies

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. The school 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.

Note 12 – Prior Year Defeasance of Debt

In prior years, the school district defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the district's financial statements. On June 30, 2008, \$9,480,000 of outstanding bonds (including prior years' refunding) is considered defeased.

Note 13 – Qualified Zone Academy Bonds

Section 226 of the Taxpayer Relief Act of 1997 (Public Law 105-34) provides for a source of capital at no or nominal interest rates for costs incurred by certain public schools in connection with the establishment of special academic programs from kindergarten through secondary school, in partnership with the business community.

Series 2001

The school district, in agreement with Dance Enterprises, Inc. has entered into such an arrangement dated June 1, 2001. The agreement schedules Dance Enterprises, Inc. to provide training five hours per month for the duration of the project at a present value of \$60,600.

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2008

Note 13 – Qualified Zone Academy Bonds (Continued)

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

Series 2004

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

| Year Ending June 30, | Amount |
|-------------------------|-------------------|
| 2009 | \$ <u>366,890</u> |

Series 2008

The school district, in agreement with CyberLearning, has entered into another such an arrangement dated June 17, 2008. The agreement schedules CyberLearning to provide a total of 2,200 software licenses. This contribution has a present value of \$152,556. This agreement establishes a method of repayment for a qualified interest-free debt instrument, and requires the school district to deposit funds annually into a sinking fund account on or before July 1 each year for the next four years. The amount accumulated in the sinking fund account at the end of the twelve year period will be sufficient to retire the debt. The following schedule reports the remaining yearly deposits to be made to the sinking fund by the school district:

| Year Ending June 30, | Amount |
|-------------------------|---------------------|
| 2009 | \$ 515,000 |
| 2010 | 520,000 |
| 2011 | 525,000 |
| 2012 | <u>140,000</u> |
| Total | <u>\$ 1,700,000</u> |

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2008

Note 14 – Federal Grants

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

Note 15 – Subsequent Events

In July 2008 the board approved the purchase of ten (10) new school busses totaling \$733,370.

In July 2008 the board approved emergency repairs to fire damages at Lizana Elementary in the amount of \$543,693.

In June 2009 the board approved the application for issuance of a \$3,000,000 Limited-Tax Note (Qualified School Construction Bond) for construction and repairs.

HARRISON COUNTY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

Harrison County School District
Budgetary Comparison Schedule
General Fund
For the year ended June 30, 2008

| | Budgeted Amounts | | Actual (GAAP Basis) | Variances - Positive (Negative) | |
|--|--------------------|---------------------|------------------------|---------------------------------|--------------------|
| | Original | Final | | Original to Final | Final to Actual |
| | | | | | |
| Revenues: | | | | | |
| Local sources | \$ 21,141,047 | \$ 22,126,359 | \$ 21,516,758 | \$ 985,312 | \$ (609,601) |
| State sources | 54,267,083 | 53,636,608 | 53,636,608 | (630,475) | - |
| Federal sources | 731,300 | 884,648 | 944,763 | 153,348 | 60,115 |
| Total Revenues | 76,139,430 | 76,647,615 | 76,098,129 | 508,185 | (549,486) |
| Expenditures: | | | | | |
| Instruction | 52,960,415 | 49,377,501 | 49,224,567 | 3,582,914 | 152,934 |
| Support services | 29,097,733 | 27,591,282 | 27,080,736 | 1,506,451 | 510,546 |
| Noninstructional services | 5,650 | 5,344 | 5,344 | 306 | - |
| Facilities Acquisition & Construction | 135,000 | - | - | 135,000 | - |
| Debt Service: | | | | | |
| Principal | - | - | 333,425 | - | (333,425) |
| Interest | - | - | 138,918 | - | (138,918) |
| Total Expenditures | 82,198,798 | 76,974,127 | 76,782,990 | 5,224,671 | 191,137 |
| Excess (Deficiency) of Revenues over Expenditures | (6,059,368) | (326,512) | (684,861) | 5,732,856 | (358,349) |
| Other Financing Sources (Uses): | | | | | |
| Proceeds of capital lease loans | - | - | 36,441 | - | 36,441 |
| Sale of transportation equipment | - | 44,700 | 44,700 | 44,700 | - |
| Operating transfers in | 11,909,482 | 10,084,848 | 872,632 | (1,824,634) | (9,212,216) |
| Operating transfers out | (11,992,521) | (11,030,344) | (1,818,128) | 962,177 | 9,212,216 |
| Total Other Financing Sources (Uses) | (83,039) | (900,796) | (864,355) | (817,757) | 36,441 |
| Net Change in Fund Balances | (6,142,407) | (1,227,308) | (1,549,216) | 4,915,099 | (321,908) |
| Fund Balances: | | | | | |
| July 1, 2007 | 7,068,296 | 7,292,366 | 7,909,829 | 224,070 | 617,463 |
| Increase in inventory reserve | - | 2,326 | - | 2,326 | (2,326) |
| July 1, 2007, restated | 7,068,296 | 7,294,692 | 7,909,829 | 226,396 | 615,137 |
| June 30, 2008 | \$ 925,889 | \$ 6,067,384 | \$ 6,360,613 | \$ 5,141,495 | \$ 293,229 |

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

Harrison County School District
Notes to the Required Supplementary Information
For the Year Ended June 30, 2008

Budgetary Comparison Schedules

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

HARRISON COUNTY SCHOOL DISTRICT

SUPPLEMENTARY INFORMATION

Harrison County School District
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2008

| Federal Grantor/ Pass-through Grantor/ Program Title | Catalog of Federal Domestic Assistance Number | Federal Expenditures |
|--|---|-------------------------|
| <u>U. S. Department of Agriculture</u> | | |
| Passed-through Mississippi Department of Education: | | |
| Child nutrition cluster: | | |
| School breakfast program | 10.553 | \$ 969,749 |
| National school lunch program | 10.555 | 3,145,967 |
| Summer food service program for children | 10.559 | 187,781 |
| Total child nutrition cluster | | <u>4,303,497</u> |
| Fresh fruit and vegetable program | 10.582 | 66,255 |
| Total U. S. Department of Agriculture | | <u>4,369,752</u> |
| <u>U. S. Department of Defense</u> | | |
| Direct program: | | |
| Reserve Officers' Training Corps | 12.xxx | 107,342 |
| Total U. S. Department of Defense | | <u>107,342</u> |
| <u>Federal Communications Commission</u> | | |
| Administered through the Universal Service Administrative Company: | | |
| The schools and libraries program of the universal service fund | 32.xxx | 349,916 |
| Total Federal Communications Commission | | <u>349,916</u> |
| <u>U. S. Department of Education</u> | | |
| Direct programs: | | |
| Impact aid | 84.041 | 62,087 |
| Total | | <u>62,087</u> |
| Passed-through Mississippi Department of Education: | | |
| Title I - grants to local education agencies | 84.010 | 3,933,794 |
| Career and technical education - basic grants to states | 84.048 | 152,649 |
| Safe and drug-free schools and communities - state grants | 84.186 | 65,561 |
| Education for homeless children and youth | 84.196 | 29,448 |
| State grants for innovative programs | 84.298 | 35,571 |
| Education technology state grants | 84.318 | 67,987 |
| Special education - state personnel development | 84.323 | 64,741 |
| English language acquisition grants | 84.365 | 30,428 |
| Improving teacher quality state grants | 84.367 | 634,952 |
| Grants for state assessment and related activities | 84.369 | 1,920 |
| Hurricane education recovery act programs | 84.938 | 1,440 |
| Total | | <u>5,018,491</u> |
| Special education cluster: | | |
| Special education - grants to states | 84.027 | 2,664,009 |
| Special education - preschool grants | 84.173 | 111,602 |
| Total | | <u>2,775,611</u> |
| Total passed-through Mississippi Department of Education | | <u>7,794,102</u> |
| Total U. S. Department of Education | | <u>7,856,189</u> |
| <u>Corporation for National and Community Service</u> | | |
| Passed-through Mississippi Department of Education: | | |
| Learn and serve america - school and community based program | 94.004 | 8,062 |
| Total Corporation for National and Community Service | | <u>8,062</u> |

(Continued)

Harrison County School District
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2008

| Federal Grantor/ Pass-through Grantor/ Program Title | Catalog of Federal Domestic Assistance Number | Federal Expenditures |
|---|---|-------------------------|
| <u>Social Security Administration</u> | | |
| Passed-through Mississippi Department of Education: | | |
| Social Security - work incentives planning and assistance program | 96.008 | 160,114 |
| Total Social Security Administration | | <u>160,114</u> |
| <u>Department of Homeland Security</u> | | |
| Direct programs: | | |
| Community disaster loans | 97.030 | 295,506 |
| Total | | <u>295,506</u> |
| Passed through the Mississippi Emergency Management Agency | | |
| Disaster grants - Public Assistance (Presidentially Declared Disasters) | 97.036 | 9,364,189 |
| Disaster grants - D'Iberville high school 404 mitigation | 97.036 | 7,295,619 |
| Disaster grants - West Harrison high school 404 mitigation | 97.036 | 4,877,008 |
| Total passed through Mississippi Emergency Management Agency | | <u>21,536,816</u> |
| Total Department of Homeland Security | | <u>21,832,322</u> |
| Total for All Federal Awards | | <u>\$ 34,683,697</u> |

NOTES TO SCHEDULE

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

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

| Expenditures | Total | Instruction and Other | | | |
|------------------------------|-----------------------|------------------------------------|------------------------|-----------------------|-------------------|
| | | Student Instructional Expenditures | General Administration | School Administration | Other |
| Salaries and fringe benefits | \$ 76,266,709 | 57,919,766 | 2,143,481 | 5,322,036 | 10,881,426 |
| Other | 73,282,629 | 9,477,744 | 382,143 | 158,470 | 63,264,272 |
| Total | \$ 149,549,338 | 67,397,510 | 2,525,624 | 5,480,506 | 74,145,698 |
| Total number of students* | 12,080 | | | | |
| Cost per student | \$ 12,380 | 5,579 | 209 | 454 | 6,138 |

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

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

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

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

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

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

Harrison County School District
Statement of Revenues, Expenditures and Changes in Fund Balances
General Fund
Last Four Years

"UNAUDITED"

| | 2008 | 2007* | 2006* | 2005* |
|--|---------------------|---------------------|---------------------|---------------------|
| Revenues: | | | | |
| Local sources | \$ 21,516,758 | \$ 21,583,280 | \$ 21,438,605 | \$ 21,120,582 |
| State sources | 53,636,608 | 49,348,930 | 48,788,752 | 44,431,332 |
| Federal sources | 944,763 | 1,066,093 | 684,520 | 673,861 |
| Total Revenues | <u>76,098,129</u> | <u>71,998,303</u> | <u>70,911,877</u> | <u>66,225,775</u> |
| Expenditures: | | | | |
| Instruction | 49,224,567 | 39,795,592 | 27,941,470 | 43,248,316 |
| Support services | 27,080,736 | 26,574,397 | 18,757,101 | 19,444,673 |
| Noninstructional services | 5,344 | 400,223 | 5,093 | 7,069 |
| Facilities acquisition and construction | | 148,830 | 750,927 | - |
| Debt service: | | | | |
| Principal | 333,425 | 321,510 | 308,853 | 302,620 |
| Interest | 138,918 | 150,491 | 163,338 | 198,419 |
| Total Expenditures | <u>76,782,990</u> | <u>67,391,043</u> | <u>47,926,782</u> | <u>63,201,097</u> |
| Excess (Deficiency) of Revenues over Expenditures | <u>(684,861)</u> | <u>4,607,260</u> | <u>22,985,095</u> | <u>3,024,678</u> |
| Other Financing Sources (Uses): | | | | |
| Inception of capital leases | 36,441 | - | - | 2,209 |
| Sale of other property | 44,700 | 9,281 | 2,000 | - |
| Operating transfers in | 872,632 | 565,316 | 786,605 | 802,562 |
| Operating transfers out | (1,818,128) | (5,506,737) | (22,870,046) | (6,245,142) |
| Total Other Financing Sources (Uses) | <u>(864,355)</u> | <u>(4,932,140)</u> | <u>(22,081,441)</u> | <u>(5,440,371)</u> |
| Net Change in Fund Balances | <u>(1,549,216)</u> | <u>(324,880)</u> | <u>903,654</u> | <u>(2,415,693)</u> |
| Fund Balances: | | | | |
| July 1, | 7,909,829 | 8,234,709 | 7,258,991 | 9,674,684 |
| Residual equity transfer in (out) | <u>-</u> | <u>-</u> | <u>72,064</u> | <u>-</u> |
| June 30, | <u>\$ 6,360,613</u> | <u>\$ 7,909,829</u> | <u>\$ 8,234,709</u> | <u>\$ 7,258,991</u> |

*SOURCE - PRIOR YEAR AUDIT REPORTS

Harrison County School District
Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Funds
Last Four Years

"UNAUDITED"

| | 2008 | 2007* | 2006* | 2005* |
|--|----------------------|----------------------|----------------------|----------------------|
| Revenues: | | | | |
| Local sources | \$ 30,329,781 | \$ 30,252,464 | \$ 27,694,967 | \$ 27,330,715 |
| State sources | 55,917,453 | 51,572,359 | 52,870,323 | 47,793,600 |
| Federal sources | 34,467,201 | 25,780,717 | 35,458,093 | 11,599,506 |
| Sixteenth section sources | 1,902,922 | 1,425,045 | 1,809,472 | 1,742,808 |
| Total Revenues | <u>122,617,357</u> | <u>109,030,585</u> | <u>117,832,855</u> | <u>88,466,629</u> |
| Expenditures: | | | | |
| Instruction | 57,386,991 | 56,995,968 | 54,248,243 | 50,899,106 |
| Support services | 35,121,598 | 38,478,717 | 38,915,004 | 24,855,835 |
| Noninstructional services | 6,048,056 | 5,917,204 | 5,175,386 | 4,956,361 |
| Sixteenth section | 483,059 | 515,277 | 460,261 | 376,386 |
| Facilities acquisition and construction | 45,193,235 | 7,951,264 | 1,662,009 | - |
| Debt service: | | | | |
| Principal | 3,253,425 | 3,081,510 | 2,938,853 | 3,209,620 |
| Interest | 2,009,399 | 1,622,490 | 1,525,776 | 2,016,359 |
| Advance refunding escrow | | 814,986 | 13,955,000 | - |
| Other | 53,575 | 448,799 | - | - |
| Total Expenditures | <u>149,549,338</u> | <u>115,826,215</u> | <u>118,880,532</u> | <u>86,313,667</u> |
| Excess (Deficiency) of Revenues over Expenditures | <u>(26,931,981)</u> | <u>(6,795,630)</u> | <u>(1,047,677)</u> | <u>2,152,962</u> |
| Other Financing Sources (Uses): | | | | |
| Proceeds of limited tax notes | - | 17,755,000 | - | - |
| Proceeds of loans | 2,795,506 | | | |
| Proceeds of refunding bonds | - | 9,910,000 | 13,955,000 | - |
| Premium on debt issuance | - | 225,416 | - | - |
| Inception of capital leases | 36,441 | - | - | 2,209 |
| Insurance loss recoveries | - | 25,911,717 | 11,691,458 | - |
| Payment to escrow agent for QZAB | (200,000) | (200,000) | - | - |
| Payment held by escrow agent for QZAB | 200,000 | 200,000 | - | - |
| Sale of other property | 44,700 | 9,281 | 2,000 | - |
| Operating transfers in | 26,376,186 | 25,616,939 | 24,991,904 | 7,735,991 |
| Operating transfers out | (26,376,186) | (25,616,939) | (24,991,904) | (7,735,991) |
| Payment to refunded bond escrow agent | - | (9,721,249) | (300,000) | - |
| Total Other Financing Sources (Uses) | <u>2,876,647</u> | <u>44,090,165</u> | <u>25,348,458</u> | <u>2,209</u> |
| Net Change in Fund Balances | <u>(24,055,334)</u> | <u>37,294,535</u> | <u>24,300,781</u> | <u>2,155,171</u> |
| Fund Balances: | | | | |
| July 1, | 86,334,757 | 49,293,331 | 24,920,450 | 22,777,620 |
| Prior period adjustments | 1,771,163 | (270,848) | - | - |
| July 1, as restated | <u>88,105,920</u> | <u>49,022,483</u> | <u>24,920,450</u> | <u>22,777,620</u> |
| Increase (Decrease) in reserve for inventory | <u>(58,537)</u> | <u>17,739</u> | <u>72,100</u> | <u>(12,341)</u> |
| June 30, | <u>\$ 63,992,049</u> | <u>\$ 86,334,757</u> | <u>\$ 49,293,331</u> | <u>\$ 24,920,450</u> |

*SOURCE - PRIOR YEAR AUDIT REPORTS

HARRISON COUNTY SCHOOL DISTRICT

REPORTS ON INTERNAL CONTROLS AND COMPLIANCE

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

Superintendent and School Board
Harrison County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Harrison County School District as of and for the year ended June 30, 2008, which collectively comprise the Harrison County School District's basic financial statements and have issued our report thereon dated December 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.

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.

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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*. However, we noted certain immaterial instances of noncompliance or other matters that we have reported to management of the school district in a separate letter dated December 15, 2009, which is included in this report.

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

Culumber, Fletcher, Harvey & Associates, P.A.

Culumber, Fletcher, Harvey & Associates, P. A.
Certified Public Accountants

Biloxi, Mississippi
December 15, 2009

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

Superintendent and School Board
Harrison County School District

Compliance

We have audited the compliance of the Harrison County School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 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 of the School district's compliance with those requirements.

In our opinion, the Harrison County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

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

Culumber, Fletcher, Harvey & associates, P.A.

Culumber, Fletcher, Harvey & Associates, P. A.
Certified Public Accountants

Biloxi, Mississippi
December 15, 2009

HARRISON COUNTY SCHOOL DISTRICT

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

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

Superintendent and School Board
Harrison County School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Harrison County School District as of and for the year ended June 30, 2008, which collectively comprise Harrison County School District's basic financial statements and have issued our report thereon dated December 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 instances of noncompliance. The district reported \$130,007 of classroom supply funds carried over from previous years.

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

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

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements disclosed the following immaterial instances of noncompliance with other state laws and regulations. Our findings and recommendations and your responses are as follows:

1. Re-employed Retirees Were Paid More than State Allowance

Finding

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

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

1. An employee earned \$659 in salary more than the state allowed per PERS Form 4B

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

Recommendation

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

School District's Response

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

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

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

This report is intended for the information of the School district's management and the Office of the State Auditor 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.

Culumber, Fletcher, Harvey & Associates, P.A.

Culumber, Fletcher, Harvey & Associates, P. A.
Certified Public Accountants

Biloxi, Mississippi
December 15, 2009

HARRISON COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Harrison 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 related to the financial statements? | No |
| 3. | Internal control over financial reporting: | |
| | a. Material weakness identified? | No |
| | b. Significant deficiency identified that is not considered to be material weaknesses? | No |

Federal Awards:

- | | | |
|-----|--|-------------|
| 4. | Type of auditor’s report issued on compliance for major federal Programs: | Unqualified |
| 5. | Internal control over major programs: | |
| | a. Material weakness identified? | No |
| | b. Significant deficiency identified that is not considered to be material weaknesses? | No |
| 6. | Any audit finding(s) reported as required by Section __.510(a) of Circular A-133? | No |
| 7. | Federal programs identified as major programs: | |
| | a. Child Nutrition Cluster CFDA # 10.553 CFDA # 10.555 CFDA # 10.559 | |
| | b. Disaster Grants – public assistance (Presidentially declared disasters) CFDA # 97.036 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$1,040,511 |
| 9. | Auditee qualified as a low-risk auditee? | No |
| 10. | Prior fiscal year audit finding(s) and questioned costs 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

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

Section 3: Federal Award Findings and Questioned Costs

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