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Holmes County School District

Audited Financial Statements
June 30, 2008

Fortenberry & Ballard, PC
Certified Public Accountants

**Holmes County School District
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FINANCIAL AUDIT REPORT

FORTENBERRY & BALLARD, PC
Certified Public Accountants

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

Superintendent and School Board
Holmes County School District

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Holmes County School District, as of June 30, 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 July 22, 2009 on our consideration of the Holmes County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

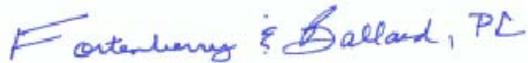
The Management's Discussion and Analysis on pages 7 through 15 and the Budgetary Comparison Schedules and corresponding notes on pages 46 through 50 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We 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.

AICPA & MSCPA

1929 Spillway Road, Suite B, Brandon, MS 39047, Telephone (601) 992-5292

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

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.



Fortenberry & Ballard, P.C.
July 22, 2009

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The discussion and analysis of Holmes County School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 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 financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

FINANCIAL HIGHLIGHTS

- Total net assets decreased \$254,768, which represents 2% decrease from fiscal year 2007.
- General revenues account for \$20,979,855 in revenue, or 73% of all revenues. This amount was more than the general revenues reported for the year 2007, which consisted of \$19,829,692 in revenue, or 73% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$7,862,404 or 27% of total revenues compared with \$7,415,407 in 2007.
- The District had \$29,097,922 in expenses, an amount that increased when compared with the \$27,546,071 in expenses for the prior year; only \$7,862,404 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$20,979,855 were not adequate to provide for these programs.
- Among major funds, the General Fund had \$19,552,942 in revenues and \$19,415,775 in expenditures. In 2007 the General Fund had \$18,343,349 in revenues and \$18,929,766 in expenditures. The General Fund's fund balance decreased \$308,030 over the prior year.
- Capital assets, net of accumulated depreciation, decreased by \$66,861.
- Long-term debt decreased by \$760,812.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

The government-wide financial statements can be found on pages 18 and 19 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide

financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 22 and 26, respectively.

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

The basic governmental fund financial statements can be found on pages 20 and 24 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The school district's fiduciary activities are presented in a separate Statement of Fiduciary Assets and Liabilities on page 27.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 29-44 of this report.

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund and each additional major special revenue fund. This required supplementary information can be found on pages 46-50 of this report.

Additionally, a schedule of expenditures of federal awards, required by OMB Cir. A-133 and a schedule of instructional, administrative, and other expenditures for governmental funds can be found on pages 52 and 53 of this report.

In addition a Statement of Revenues, Expenditures, and Changes in Fund Balance - Last Four Years is presented for the General Fund and All Governmental Funds on pages 55 and 56 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of government's financial

position. In the case of the District, assets exceeded liabilities by \$15,415,203 as of June 30, 2008.

The district's net assets are comprised of 1) net assets invested in capital assets, net of related debt 2) restricted net assets and 3) unrestricted net assets. \$6,243,804 of the District's net assets 40% reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, and furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending. \$1,848,114 of the District's net assets 12% reflects its restricted net assets. A portion of the restricted net assets is expendable for school based activities, debt service, forestry improvements, unemployment benefits and sixteenth section. \$7,323,285 of the District's net assets 48% reflects its unrestricted net assets.

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

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

	2008	2007	Percentage Change	
Current assets	\$ 9,457,458	10,484,506	(10)%	(1,027,048)
Capital assets, net	12,273,804	12,340,665	(1)%	(66,861)
Total	21,731,262	22,825,171	(5)%	(1,093,909)
Current liabilities	100,208	178,537	(44)%	(78,329)
Long-term debt	6,215,851	6,976,663	(11)%	(760,812)
Total liabilities	6,316,059	7,155,200	(12)%	(839,141)
Net assets:				
Invested in capital assets, net of related debt	6,243,804	5,550,665	12%	693,139
Restricted	1,848,114	2,488,803	(26)%	(650,689)
Unrestricted	7,323,285	7,630,503	(4)%	(296,218)
Total net assets	\$ 15,415,203	15,669,971	(2)%	(254,768)

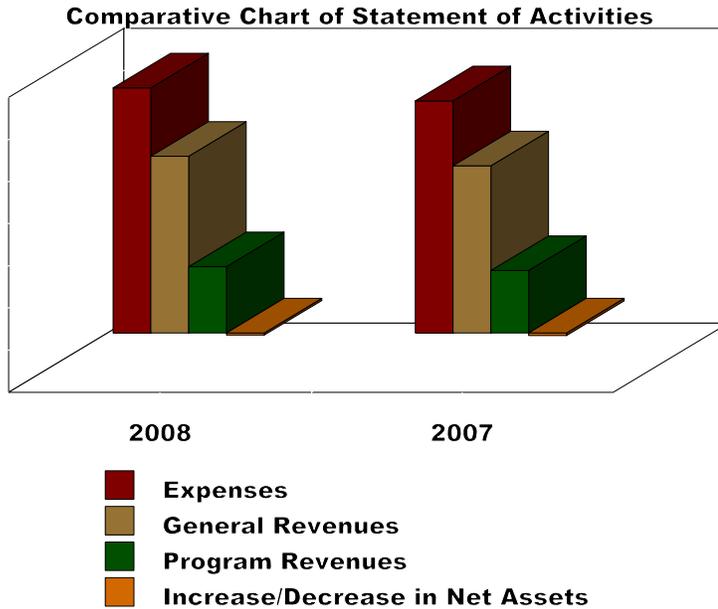
The following are significant current year transactions that have had an impact on the Statement of Net Assets.

- Long-term debt outstanding decreased from the previous fiscal year due primarily to principal payments made during the fiscal year on existing long-term debt.
- Net assets invested in capital assets, net of related debt, increased from the previous fiscal year due primarily to the reduction of long-term debt.

- Restricted net assets decreased from the previous fiscal year due primarily to a decrease in amounts restricted for school based activities, debt service, and unemployment benefits.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2008 were \$28,842,259. The total cost of all programs and services was \$29,097,922. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2008 and 2007.

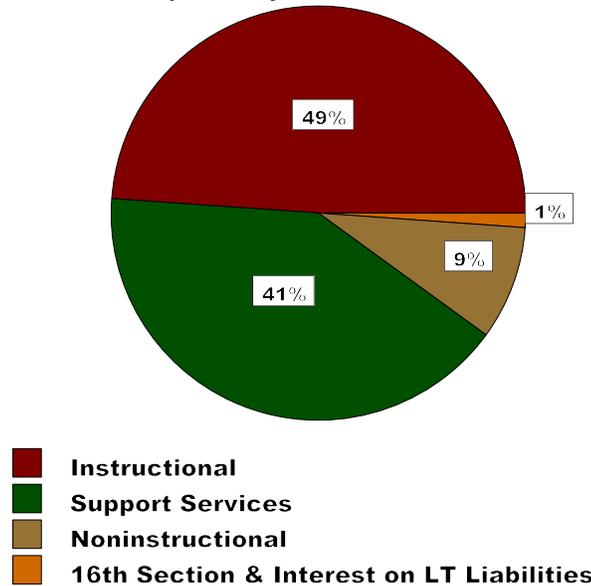
	<u>2008</u>	<u>2007</u>	<u>Percentage Change</u>	
Revenues:				
Program revenues:				
Charges for services	\$ 228,308	205,201	11%	23,107
Operating grants and contributions	5,679,270	7,210,206	(21)%	(1,530,936)
Capital grants and contributions	<u>1,954,826</u>	<u>0</u>	100%	1,954,826
Total program revenues	<u>7,862,404</u>	<u>7,415,407</u>	6%	446,997
General revenues:				
Property taxes	3,436,003	3,479,556	(1)%	(43,553)
Grants and contributions not restricted	16,487,508	15,347,342	7%	1,140,166
Unrestricted investment earnings	370,499	387,219	(4)%	(16,720)
Sixteenth section sources	634,816	484,618	31%	150,198
Other	<u>51,029</u>	<u>130,957</u>	(61)%	(79,928)
Total general revenues	<u>20,979,855</u>	<u>19,829,692</u>	6%	1,150,163
Total revenues	<u>28,842,259</u>	<u>27,245,099</u>	6%	1,597,160
Expenses:				
Instruction	14,196,399	13,524,084	5%	672,315
Support services	12,008,581	11,193,039	7%	815,542
Non-instructional	2,517,403	2,448,804	3%	68,599
Sixteenth section sources	92,686	63,519	46%	29,167
Interest on long-term debt	<u>282,853</u>	<u>316,625</u>	(11)%	(33,772)
Total expenses	<u>29,097,922</u>	<u>27,546,071</u>	6%	1,551,851
Increase (decrease) in net assets	<u>(255,663)</u>	<u>(300,972)</u>	15%	<u>45,309</u>
Net Assets, July 1	15,669,971	15,970,943	(2)%	(300,972)
Prior Period Adjustment	<u>895</u>	<u>0</u>	100%	895
Net Assets, Restated	<u>15,670,866</u>	<u>15,970,943</u>	(2)%	(300,077)
Net Assets, June 30	<u>\$ 15,415,203</u>	<u>15,669,971</u>	(2)%	(254,768,000)%



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.

	2008	2007	2008 Net (Expense) Revenue	2007 Net (Expense) Revenue
	Expenses	Expenses		
Instruction	\$ 14,196,399	13,524,084	(11,243,023)	(11,380,412)
Support services	12,008,581	11,193,039	(9,276,851)	(8,277,205)
Non-instructional	2,517,403	2,448,804	(343,255)	(92,903)
Sixteenth section	92,686	63,519	(89,536)	(63,519)
Interest on long-term liabilities	282,853	316,625	(282,853)	(316,625)
Total Expenses	\$ 29,097,922	27,546,071	(21,235,518)	(20,130,664)

Chart of Expenses per Statement of Activities



- The net cost of governmental activities for fiscal year 2008 (\$21,235,518) was financed by general revenue, which is made up of primarily property taxes \$3,436,003, investment earnings \$370,499, sixteenth section sources \$634,816, state revenues \$16,406,297 and other \$51,029.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed fiscal year June 30, 2008, its governmental funds reported a combined fund balance of \$9,417,405. The net change in fund balance for the fiscal year was a decrease of \$964,503. \$1,145,184, or 12% of the fund balance is reported by fund type in the reserved section of the Governmental Funds Balance Sheet. The portion of the fund balance reported in the Special Revenue Funds will be used for school based activities. A portion of the fund balance is reserved for inventory, advances, unemployment benefits, forestry improvements, debt service purposes and permanent fund purposes. The remaining fund balance of \$8,272,221, or 88%, is unreserved and undesignated to indicate that it is available for spending.

The General Fund is the principal operating fund of the District. The net change in fund balance for the General Fund for the fiscal year was a decrease of \$308,030 due primarily to transfers to other governmental funds to cover the cost of operations of the District. The net change in fund

balance for the Other Governmental Funds for the fiscal year was a decrease of \$656,473 due primarily to transfers from the General Fund for current operations.

BUDGETARY HIGHLIGHTS

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

- Budgeted amounts for revenue from local, state and federal in the General Fund were increased to reflect the increase in ad valorem revenue and other local sources received during the fiscal year. Amounts originally budgeted were understated.
- Budgeted amounts for instruction, support services, and noninstructional expenditures in the General Fund were decreased to more accurately reflect actual expenditures incurred during the fiscal year. Amounts originally budgeted were overstated.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2008, the District's total capital assets, before depreciation, were \$20,821,379, including land, school buildings, buses, other school vehicles and, furniture and equipment. This amount represents an increase of \$611,575 from the previous year. Total accumulated depreciation as of June 30, 2008 was \$8,547,575 and total depreciation expense for the year was \$679,331, resulting in total net capital assets of \$12,273,804.

	<u>2008</u>	<u>2007</u>	<u>Percentage Change</u>
Land	\$ 57,310	57,310	0%
Buildings	8,946,745	9,174,583	(2)%
Building improvements	409,788	438,383	(7)%
Improvements other than buildings	1,219,052	1,296,273	(6)%
Mobile equipment	1,294,078	1,159,359	12%
Furniture and equipment	346,831	214,757	61%
Total	<u>\$ 12,273,804</u>	<u>12,340,665</u>	(1)%

Additional information of the District's capital assets can be found in the Notes to the Financial Statements.

Debt Administration. At June 30, 2008, the District had \$1,345,000 in general obligation bonds outstanding and \$4,870,851 other long-term debt outstanding, of which \$640,000 is due within one year.

	<u>2008</u>	<u>2007</u>	<u>Percentage Change</u>
General obligation bonds	\$ 1,345,000	1,745,000	(23)%
Limited obligations payable	4,685,000	5,045,000	(7)%
Compensated absences	<u>185,851</u>	<u>186,663</u>	0%
Total	\$ <u>6,215,851</u>	<u>6,976,663</u>	(11)%

Additional information of the District's long-term debt can be found in Note 6 on page 41 of this report.

CURRENT ISSUES

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

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FINANCIAL STATEMENTS

HOLMES COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

JUNE 30, 2008

	Governmental Activities
Assets	
<i>Cash and cash equivalents</i>	\$ 8,045,258
<i>Investments</i>	78,112
<i>Due from other governments</i>	900,094
<i>Inventories</i>	45,822
<i>Restricted assets</i>	388,172
<i>Capital assets, non-depreciable:</i>	
<i>Land</i>	57,310
<i>Capital assets, net of accumulated depreciation:</i>	
<i>Buildings</i>	8,946,745
<i>Building improvements</i>	409,788
<i>Improvements other than buildings</i>	1,219,052
<i>Mobile equipment</i>	1,294,078
<i>Furniture and equipment</i>	346,831
Total Assets	<u>21,731,262</u>
Liabilities	
<i>Accounts payable and accrued liabilities</i>	40,053
<i>Interest payable on long-term liabilities</i>	60,155
Long-term liabilities (due within one year):	
<i>Capital related liabilities</i>	640,000
Long-term liabilities (due beyond one year)	
<i>Capital related liabilities</i>	5,390,000
<i>Non-capital related liabilities</i>	185,851
Total Liabilities	<u>6,316,059</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	6,243,804
Restricted Net Assets:	
Expendable:	
School-based activities	827,330
Debt service	332,021
Forestry improvements	129,889
Unemployment benefits	77,783
Sixteenth section	92,919
Non-expendable:	
Sixteenth section	388,172
Unrestricted	7,323,285
Total Net Assets	<u>\$ 15,415,203</u>

The accompanying notes are an integral part of this statement.

HOLMES COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

Functions/Programs	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions		
					Governmental Activities
Governmental Activities:					
<i>Instruction</i>	14,196,399	151,899	2,801,477	--	(11,243,023)
<i>Support services</i>	12,008,581	11,000	2,720,730	--	(9,276,851)
<i>Noninstructional services</i>	2,517,403	62,259	157,063	1,954,826	(343,255)
<i>Sixteenth section</i>	92,686	3,150	--	--	(89,536)
<i>Interest on long-term liabilities</i>	282,853	--	--	--	(282,853)
Total Governmental Activities	<u>\$ 29,097,922</u>	<u>\$ 228,308</u>	<u>\$ 5,679,270</u>	<u>\$ 1,954,826</u>	<u>(21,235,518)</u>
General Revenues:					
Taxes:					
<i>General purpose levies</i>					3,357,089
<i>Debt purpose levies</i>					78,914
Unrestricted grants and contributions:					
<i>State</i>					16,406,297
<i>Federal</i>					81,211
<i>Unrestricted investment earnings</i>					370,499
<i>Sixteenth section sources</i>					634,816
<i>Other</i>					51,029
Total general revenues					<u>20,979,855</u>
Change in Net Assets					(255,663)
Net Assets - Beginning					15,669,971
Prior Period Adjustment					895
Net Assets - Restated					<u>15,670,866</u>
Net Assets - Ending					<u>\$ 15,415,203</u>

The accompanying notes are an integral part of this statement.

HOLMES COUNTY SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2008

	General Fund	2008 Summer Feeding
ASSETS		
<i>Cash and cash equivalents</i>	\$ 6,951,138	\$ --
<i>Investments</i>	--	--
<i>Due from other governments</i>	264,888	59,166
<i>Due from other funds</i>	304,687	--
<i>Advances to other funds</i>	18,423	--
<i>Inventories</i>	--	--
Total Assets	\$ 7,539,136	\$ 59,166
 LIABILITIES AND FUND BALANCES		
Liabilities:		
<i>Accounts payable and accrued liabilities</i>	\$ 30,000	\$ --
<i>Due to other funds</i>	--	59,166
Total Liabilities	30,000	59,166
 Fund balances:		
Reserved for:		
<i>Inventory</i>	--	--
<i>Advances</i>	18,423	--
<i>Forestry improvements</i>	--	--
<i>Unemployment benefits</i>	--	--
<i>Debt service funds</i>	--	--
<i>Permanent funds</i>	--	--
Unreserved, undesignated, reported in:		
<i>General fund</i>	7,490,713	--
<i>Special Revenue funds</i>	--	--
Total Fund Balances	7,509,136	--
Total Liabilities and Fund Balances	\$ 7,539,136	\$ 59,166

The accompanying notes are an integral part of this statement.

Title I Fund	Other Governmental Funds	Total Governmental Funds
\$ --	\$ 1,482,292	\$ 8,433,430
--	78,112	78,112
200,566	357,051	881,671
--	--	304,687
--	--	18,423
--	45,822	45,822
<u>\$ 200,566</u>	<u>\$ 1,963,277</u>	<u>\$ 9,762,145</u>
\$ 5,710	\$ 4,343	\$ 40,053
194,856	50,665	304,687
<u>200,566</u>	<u>55,008</u>	<u>344,740</u>
--	45,822	45,822
--	--	18,423
--	129,889	129,889
--	77,783	77,783
--	392,176	392,176
--	481,091	481,091
--	--	7,490,713
--	781,508	781,508
--	1,908,269	9,417,405
<u>\$ 200,566</u>	<u>\$ 1,963,277</u>	<u>\$ 9,762,145</u>

HOLMES COUNTY SCHOOL DISTRICT

*RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008*

Total fund balances - governmental funds balance sheet	\$ 9,417,405
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not reported in the funds.	12,273,804
Liabilities due in one year are not recognized in the funds	(640,000)
Payables for bond principal which are not due in the current period are not reported in the funds.	(5,390,000)
Payables for bond interest which are not due in the current period are not reported in the funds.	(60,155)
Payables for compensated absences not due in the current period are not reported in the funds.	<u>(185,851)</u>
Net assets of governmental activities - statement of net assets	<u>\$ 15,415,203</u>

The accompanying notes are an integral part of this statement.

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HOLMES COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	General Fund	2008 Summer Feeding
Revenue:		
<i>Local sources</i>	\$ 3,904,685	\$ 169
<i>State sources</i>	15,567,046	--
<i>Federal sources</i>	81,211	59,167
<i>Sixteenth section sources</i>	--	--
Total revenues	<u>19,552,942</u>	<u>59,336</u>
Expenditures:		
Instruction	10,968,245	--
Support services	8,235,308	4,262
Noninstructional services	24,302	55,074
Sixteenth section	--	--
Debt service:		
<i>Principal</i>	127,015	--
<i>Interest</i>	58,405	--
<i>Other</i>	2,500	--
Total expenditures	<u>19,415,775</u>	<u>59,336</u>
Excess (deficiency) of revenues (over) expenditures	137,167	--
Other financing sources (uses):		
Insurance loss recoveries	13,995	--
Transfers in	20,572	--
Transfers out	(479,764)	--
Total other financing sources (uses)	<u>(445,197)</u>	<u>--</u>
Net change in fund balance	(308,030)	--
Fund Balances:		
July 1, 2007	7,817,166	--
Increase (decrease) in reserve for inventory	--	--
July 1, 2007 - Restated	<u>7,817,166</u>	<u>--</u>
June 30, 2008	<u>\$ 7,509,136</u>	<u>\$ --</u>

Title I Fund	Other Governmental Funds	Total Governmental Funds
\$ 795	\$ 163,330	\$ 4,068,979
--	1,370,425	16,937,471
3,343,097	3,700,372	7,183,847
--	637,966	637,966
<u>3,343,892</u>	<u>5,872,093</u>	<u>28,828,263</u>
1,572,210	1,457,836	13,998,291
1,521,722	2,446,385	12,207,677
239,960	2,113,117	2,432,453
--	92,686	92,686
--	632,985	760,000
--	235,068	293,473
--	2,664	5,164
<u>3,333,892</u>	<u>6,980,741</u>	<u>29,789,744</u>
10,000	(1,108,648)	(961,481)
--	--	13,995
--	1,507,250	1,527,822
(10,000)	(1,038,058)	(1,527,822)
<u>(10,000)</u>	<u>469,192</u>	<u>13,995</u>
--	(639,456)	(947,486)
--	2,564,742	10,381,908
--	(17,017)	(17,017)
--	2,547,725	10,364,891
<u>\$ --</u>	<u>\$ 1,908,269</u>	<u>\$ 9,417,405</u>

HOLMES COUNTY SCHOOL DISTRICT

*RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT
OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008*

Net change in fund balances - total governmental funds	\$ (947,486)
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	611,575
The depreciation of capital assets used in governmental activities is not reported in the funds.	(679,331)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	760,000
(Increase) decrease in accrued interest from beginning of period to end of period	15,784
Change in inventory is an adjustment to fund balance in the funds but affects expense in the SOA.	(17,017)
Compensated absences are reported as amount earned in SOA but as amount paid in the funds.	<u>812</u>
Change in net assets of governmental activities - statement of activities	<u>\$ (255,663)</u>

The accompanying notes are an integral part of this statement.

HOLMES COUNTY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
 FIDUCIARY FUNDS
 JUNE 30, 2008

	<u>Agency Funds</u>
ASSETS	
Assets:	
<i>Cash and other deposits</i>	\$ 1,208,921
Total Assets	\$ 1,208,921
LIABILITIES	
Liabilities:	
<i>Accounts Payable & Accrued Liabilities</i>	\$ 1,167,321
<i>Due to student clubs</i>	23,177
<i>Advances from other funds</i>	18,423
Total Liabilities	\$ 1,208,921

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements

For the year ended
June 30, 2008

Holmes County School District

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

(1) Summary of Significant Accounting Policies.

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

A. Financial Reporting Entity.

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

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

B. Basis of Presentation.

Government-wide Financial Statements:

The Statement of Net Assets and 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

Holmes County School District

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

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.

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

Fund Financial Statements:

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

The school district reports the following major governmental funds:

General Fund - This is the school district's primary operating fund. 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.

2008 Summer Feeding Fund - This fund is used to account for the food distribution under the summer food service program.

Title I Fund - This fund is the school district's federally funded program offering remedial mathematics, language arts, and reading instruction to eligible students under a school-wide structured project.

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

Holmes County School District

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

The school district also reports fiduciary funds which focus on net assets and changes in net assets.

The District's fiduciary funds include (7) agency funds, which are used to report resources held by the district in a purely custodial capacity.

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUND TYPES

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

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

Permanent Funds - Permanent Funds are used to account for assets held by the governmental unit where only the earnings the assets generate may be used by the governmental unit.

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 result 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

Holmes County School District

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

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

Capital acquisition and construction are reflected as expenditures in the 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.

Holmes County School District

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

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting* as issued in 2005 by the Government Finance Officers Association and are consistent with the broad classifications recommended in the *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 type described in Sections 27-105-33, Miss. Code Ann. (1972), or in any other type investment in which any other agency, instrumentality or subdivision of the State of Mississippi may invest, except that 100% of said funds are authorized to be so invested.

For accounting purposes, certificates of deposit are classified as investments if they have an original maturity greater than three months when acquired.

Investments for the district are reported at fair market value.

2. Receivables and payables

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

Holmes County School District

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

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

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

5. Restricted Assets

Certain resources set aside for repayment of debt are classified as restricted assets on the balance sheet because their use is limited by applicable debt statutes. Also, the nonexpendable portion of the Permanent Fund, if applicable, is classified as restricted assets because the 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 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 District as assets

Holmes County School District

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

with an initial, individual cost in excess of the thresholds in the following table and estimated useful lives in excess of two years.

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

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

	Capitalization	Estimated
	<u>Policy</u>	<u>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 amounts 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 and/or vacation leave in accordance with school district policy. The district pays for unused leave for employees as required to do so by Section 37-7-307(5), Miss. Code Ann. (1972).

The liability for these compensated absences is recorded as long-term liabilities in the government-wide statements. The current portion of this liability is estimated based on historical trends. In the fund financial statements, governmental funds report the compensated absence liability payable from expendable available financial resources only if the payable has matured, for example, an employee retires.

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

Holmes County School District

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

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

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

9. Fund equity.

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

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

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

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

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

Reserved for 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 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.

Holmes County School District

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

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.

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

(2) Cash and cash equivalents and investments.

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

Deposits. The school board must advertise and accept bids for depositories no less than one 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.

Holmes County School District

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

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 \$8,433,430 and \$1,208,921 respectively. The carrying amount of deposits reported in the government wide statements was: cash and cash equivalents \$8,045,258 and restricted assets \$388,172. The bank balance was \$9,620,760.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of a financial institutions failure, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2008, none of the district's bank balance of \$9,620,760 was exposed to custodial credit risk.

Investments.

As of June 30, 2008, the district had the following investments in the Hancock Bank Trust & Financial Services Group investment pool.

<u>Investment Type</u>	<u>Maturities (in years)</u>	<u>Fair Value</u>	<u>Rating</u>
Hancock Horizon Government CL A	02-14-08	\$ 78,112	AA
Total Investments		<u>\$ 78,112</u>	

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

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

Custodial Credit Risk - Investments. Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk. Of the district's investments \$78,112 of underlying securities are held by the investment's counterparty, not in the name of the district.

Holmes County School District

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

Concentration of Credit Risk. Disclosures of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2008, the district had the following investments:

<u>Issuer</u>	<u>Fair Value</u>	<u>% of Total Investments</u>
Hancock Bank - Hancock Horizon Government CL A	\$ <u>78,112</u>	100%
	\$ <u>78,112</u>	

(3) Interfund Receivables and Payables

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds.

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	2008 Summer Feeding	\$ 59,166
	Title I Fund	194,856
	Other Governmental Funds	<u>50,665</u>
Total		\$ <u>304,687</u>

Interfund loans exist primarily to avoid a deficit cash balance in federal funds. All balances are expected to be repaid within one year from the date of the financial statements.

B. Advances To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Fiduciary Fund	\$ <u>18,423</u>
Total		\$ <u>18,423</u>

C. Interfund Transfers.

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 479,764
	Other Governmental Funds	1,027,486
Other Governmental Funds	General Fund	10,572
	General Fund	<u>10,000</u>

Holmes County School District

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

Total \$ 1,527,822

The purpose of the transfers was to provide funds for general operating activities. All transfers were routine and consistent with the fund making the transfer.

(4) Restricted Assets.

The restricted assets consist of cash of \$388,172, of the Sixteenth Section Principal fund (Permanent Fund), which is legally restricted and may not be used for purposes that support the district's programs.

(5) Capital Assets.

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

	Balance 7-1-2007	Additions	Retirements	Completed Construction	Adjustments	Balance 6-30-2008
<u>Non-depreciable capital assets:</u>						
Land	\$ 57,310					57,310
Total non-depreciable capital assets	<u>57,310</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>57,310</u>
<u>Depreciable capital assets:</u>						
Buildings	13,926,873					13,926,873
Building improvements	583,157					583,157
Improvements other than bldgs.	1,930,514					1,930,514
Mobile equipment	2,760,852	334,963				3,095,815
Furniture and equipment	951,098	276,612				1,227,710
Total depreciable capital assets	<u>20,152,494</u>	<u>611,575</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>20,764,069</u>
<u>Less accumulated depreciation for:</u>						
Buildings	4,752,290	226,973			865	4,980,128
Building improvements	144,774	23,326			5,269	173,369
Improvements other than bldgs.	634,241	77,221				711,462
Mobile equipment	1,601,493	200,244				1,801,737
Furniture and equipment	736,341	151,567			(7,029)	880,879
Total accumulated depreciation	<u>7,869,139</u>	<u>679,331</u>	<u>0</u>	<u>0</u>	<u>(895)</u>	<u>8,547,575</u>
Total depreciable capital assets, net	<u>12,283,355</u>	<u>(67,756)</u>	<u>0</u>	<u>0</u>	<u>895</u>	<u>12,216,494</u>
Governmental activities capital assets, net	<u>\$ 12,340,665</u>	<u>(67,756)</u>	<u>0</u>	<u>0</u>	<u>895</u>	<u>12,273,804</u>

Depreciation expense was charged to the following governmental functions:

Instruction	<u>Amount</u> \$475,532
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Holmes County School District

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

Support services	135,866
Non-instructional	<u>67,933</u>
Total depreciation expense	<u>\$679,331</u>

(6) Long-term Liabilities.

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

		Balance				Balance	Amounts due
		7-1-2007	Additions	Reductions	Adjustments	6-30-2008	within one year
A. General obligation bonds payable	\$	1,745,000		400,000		1,345,000	260,000
B. Limited obligation notes payable		5,045,000		360,000		4,685,000	380,000
C. Compensated absences payable		<u>186,663</u>		<u>812</u>		<u>185,851</u>	
Total	\$	<u>6,976,663</u>	<u>0</u>	<u>760,812</u>	<u>0</u>	<u>6,215,851</u>	<u>640,000</u>

A. General Obligation Bonds Payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General obligation bonds, Refunding Series 2003	1.4-4.4%	07-01-03	04-15-16	<u>2,580,000</u>	<u>1,345,000</u>
Total				\$ <u>2,580,000</u>	<u>1,345,000</u>

General obligation bonds, Series 2003 A were paid off during the fiscal year and retired from Debt Service Fund.

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

Year Ending June 30	Principal	Interest	Total
2009	\$ 260,000	50,498	310,498
2010	260,000	42,138	302,138
2011	230,000	33,038	263,038
2012	210,000	24,412	234,412
2013	205,000	16,222	221,222
2014 - 2015	<u>180,000</u>	<u>15,840</u>	<u>195,840</u>
Total	\$ <u>1,345,000</u>	<u>182,148</u>	<u>1,527,148</u>

Holmes County School District

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

The amount of bonded indebtedness that can be incurred by the school district is limited by Sections 37-59-5 and 37-59-7 Miss. Code Ann. (1972). Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in Section 37-59-7, Miss. Code Ann. (1972) have been met. As of June 30, 2008 the amount of outstanding bonded indebtedness was equal to 1.5% of property assessments as of October 31, 2007. This debt will be retired from the Debt Service Fund.

B. Limited obligation notes payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State Aid Capital Improvement Bonds, Series 1998	4.45%	04-01-98	04-01-18	\$ 7,200,000	4,685,000
Total				\$ 7,200,000	4,685,000

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

Year Ending June 30	Principal	Interest	Total
2009	\$ 380,000	215,245	595,245
2010	395,000	198,145	593,145
2011	415,000	179,975	594,975
2012	435,000	160,470	595,470
2013	455,000	139,808	594,808
2014 - 2018	2,605,000	363,939	2,968,939
Total	\$ 4,685,000	1,257,582	5,942,582

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 Debt Service Fund.

C. Compensated Absences.

Holmes County School District

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

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.

(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. The rate for fiscal year ended June 30, 2008 was 11.85% of the 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 \$1,715,524, \$1,572,988, and \$1,347,969, respectively, which equaled the required contributions for each year.

(8) Sixteenth Section Lands.

Sixteenth section school lands, or lands granted in lieu thereof, constitute property held in trust for the benefit of the public schools. The school board, under the general supervision of the Office of the Secretary of State, has control and jurisdiction of said school trust lands and of all funds arising from any disposition thereof. It is the duty of the school board to manage the school trust lands and all funds arising therefrom as trust property.

Accordingly, the board shall assure that adequate compensation is received for all uses of the trust lands, except for uses by the public schools. The following are the future rental payments to be made to the school district for the use of school trust lands. These future rental payments are from existing leases and do not anticipate renewals or new leases.

Year Ending June 30	Amount
2009	\$ 209,388
2010	160,150
2011	48,041
2012	24,801
2013	500

2014 - 2018	2,500
2019 - 2023	2,500
2024 - 2028	2,500
2029 - 2033	2,500
Thereafter	975
Total	\$ <u><u>453,855</u></u>

(9) Risk Management.

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

Participation in Public Entity Risk Pool.

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 95 school districts and one community college and covers risks of loss arising from injuries to the member's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Wells Fargo in Portland, Oregon. The funds in the trust account are used to pay any claim up to \$750,000. For a claim exceeding \$750,000, MSBAWCT has insurance which will pay the excess to the statutory amount required by the Mississippi Workers Compensation Commission Act. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

(10) Prior Period Adjustment/Exhibit

A summary of significant fund equity adjustments is as follows:

Exhibit B - Statement of Activities

<u>Explanation(s)</u>	<u>Amount</u>
1. To record adjustment to accumulated depreciation	\$ 895
Total	\$ <u><u>895</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

HOLMES COUNTY SCHOOL DISTRICT

Exhibit 1

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	\$ 3,356,602	3,904,005	3,904,685	547,403	680
State sources	13,789,861	15,566,745	15,567,046	1,776,884	301
Federal sources		81,211	81,211	81,211	0
Total Revenues	<u>17,146,463</u>	<u>19,551,961</u>	<u>19,552,942</u>	<u>2,405,498</u>	<u>981</u>
Expenditures:					
Instruction	12,273,322	11,016,464	10,968,245	1,256,858	48,219
Support services	8,500,578	8,235,311	8,235,308	265,267	3
Noninstructional services	26,938	24,302	24,302	2,636	0
Debt Service					
Principal	185,420	185,420	127,015	0	58,405
Interest			58,405	0	(58,405)
Other	3,500	2,500	2,500	1,000	0
Total Expenditures	<u>20,989,758</u>	<u>19,463,997</u>	<u>19,415,775</u>	<u>1,525,761</u>	<u>48,222</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(3,843,295)</u>	<u>87,964</u>	<u>137,167</u>	<u>3,931,259</u>	<u>49,203</u>
Other Financing Sources (Uses):					
Insurance Loss Recoveries		13,995	13,995	13,995	0
Transfers In	2,042,568	649,048	20,572	(1,393,520)	(628,476)
Transfers Out	<u>(1,755,375)</u>	<u>(1,100,579)</u>	<u>(479,764)</u>	<u>654,796</u>	<u>620,815</u>
Total Other Financing Sources (Uses)	<u>287,193</u>	<u>(437,536)</u>	<u>(445,197)</u>	<u>(724,729)</u>	<u>(7,661)</u>
Net Change in Fund Balances	<u>(3,556,102)</u>	<u>(349,572)</u>	<u>(308,030)</u>	<u>3,206,530</u>	<u>41,542</u>
Fund Balances:					
July 1, 2007	6,963,208	7,833,645	7,817,166	870,437	(16,479)
Prior period adjustments		(100)		(100)	100
July 1, 2007, as restated	<u>6,963,208</u>	<u>7,833,545</u>	<u>7,817,166</u>	<u>870,337</u>	<u>(16,379)</u>
June 30, 2008	<u>\$ 3,407,106</u>	<u>7,483,973</u>	<u>7,509,136</u>	<u>4,076,867</u>	<u>25,163</u>

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

HOLMES COUNTY SCHOOL DISTRICT

Exhibit 2

Budgetary Comparison Schedule
 2008 Summer Feeding
 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	\$ 0	170	169	170	(1)
Federal sources	0	59,166	59,167	59,166	1
Total Revenues	<u>0</u>	<u>59,336</u>	<u>59,336</u>	<u>59,336</u>	<u>(0)</u>
Expenditures:					
Support Services	0	4,262	4,262	(4,262)	0
Non-Instructional	0	55,074	55,074	(55,074)	0
Total Expenditures	<u>0</u>	<u>59,336</u>	<u>59,336</u>	<u>(59,336)</u>	<u>0</u>
Fund Balances:					
July 1, 2007	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
June 30, 2008	<u>\$ 0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

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

HOLMES COUNTY SCHOOL DISTRICT

Exhibit 3

Budgetary Comparison Schedule

Title I 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	\$	795	795	795	0
Federal sources	3,919,932	3,343,097	3,343,097	(576,835)	0
Total Revenues	3,919,932	3,343,892	3,343,892	(576,040)	0
Expenditures:					
Instruction	1,748,137	1,572,210	1,572,210	175,927	0
Support services	1,970,876	1,521,722	1,521,722	449,154	(0)
Noninstructional services	190,919	239,960	239,960	(49,041)	(0)
Total Expenditures	3,909,932	3,333,892	3,333,892	576,040	(0)
Excess (Deficiency) of Revenues Over Expenditures	10,000	10,000	10,000	(0)	0
Other Financing Sources (Uses):					
Operating Transfers Out	(10,000)	(10,000)	(10,000)	0	0
Total Other Financing Sources (Uses)	(10,000)	(10,000)	(10,000)	0	0
Net Change in Fund Balances	0	(0)	0	0	0
Fund Balances:					
July 1, 2007	0	0	0	0	0
June 30, 2008	\$ 0	(0)	0	0	(0)

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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

Holmes County School District

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

Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(2) Budget Amendments and Revisions.

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

SUPPLEMENTAL INFORMATION

Holmes County School District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2008

Schedule 1

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	Catalog of Federal Domestic Assistance Number	Federal <u>Expenditures</u>
U. S. DEPARTMENT OF AGRICULTURE/ Passed-through the Mississippi Department of Education: Child Nutrition Cluster:		
School Breakfast Program	10.553	641,011
National School Lunch Program	10.555	1,398,139
Summer Food Program for Children	10.559	116,780
Total child nutrition cluster		<u>2,155,930</u>
Total passed-through the MDE		<u>2,155,930</u>
TOTAL U. S. DEPARTMENT OF AGRICULTURE		<u>2,155,930</u>
FEDERAL COMMUNICATION COMMISSION		
Administered through Universal Service Administrative Company:		
The school and libraries program of the Universal Service Fund	32.xxx	81,211
TOTAL FEDERAL COMMUNICATION COMMISSION		<u>81,211</u>
Passed-through the Mississippi Department of Education:		
Title I Grants to Local Educational Agencies	84.010	3,343,892
Career and Technical Education_Basic Grants to States	84.048	77,176
Safe and Drug Free Schools and Communities - State Grants	84.186	53,624
State Grants for Innovative Programs	84.298	10,513
Education Technology State Grants	84.318	2,091
Comprehensive School Reform Demonstration	84.332	64,438
Gaining Early Awareness and Readiness in Undergraduate Programs	84.334	18,734
Teacher Quality Enhancement Grants	84.336	80
Rural Education	84.358	93,148
Improving Teacher Quality State Grants	84.367	545,973
Total		<u>4,209,669</u>
Special Education Cluster:		
Special Education - Grants to States	84.027	721,113
Special Education - Preschool Grants	84.173	19,526
Total special education cluster		<u>740,639</u>
Total passed-through the MDE		<u>4,950,308</u>
TOTAL U. S. DEPARTMENT OF EDUCATION		<u>4,950,308</u>
TOTAL FOR ALL FEDERAL AWARDS		<u>\$7,187,449</u>

Notes to Schedule

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

Holmes County School District

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

Schedule 2

Expenditures	Total	Instruction and Other Student Expenditures			Other
		Instructional	General Administration	School Administration	
Salaries and fringe benefits	\$ 20,384,438	14,759,226	954,137	1,509,212	3,161,863
Other	9,405,306	2,691,937	375,763	25,829	6,311,777
Total	\$ <u>29,789,744</u>	<u>17,451,163</u>	<u>1,329,900</u>	<u>1,535,041</u>	<u>9,473,640</u>

Total number of students * 3,118

Cost per student \$ 9,554

427 492 3,038

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

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

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

School Administration - includes expenditures for the following functions: 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.

OTHER SUPPLEMENTAL INFORMATION

HOLMES COUNTY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

"UNAUDITED"

General Fund

Last Four Years

	2008	2007*	2006*	2005*
Revenues:				
Local sources	\$ 3,904,685	3,866,852	3,598,370	3,249,089
State sources	15,567,046	14,377,032	14,043,131	13,696,385
Federal sources	81,211	99,465	107,250	223,191
Total Revenues	19,552,942	18,343,349	17,748,751	17,168,665
Expenditures:				
Instruction	10,968,245	10,798,081	10,034,341	9,366,918
Support services	8,235,308	7,911,485	5,941,524	5,389,172
Noninstructional services	24,302	30,390	212,860	57,684
Facilities acquisition and construction			55,014	19,935
Debt service:				
Principal	127,015	122,015	112,015	117,016
Interest	58,405	65,295	70,920	75,637
Other	2,500	2,500	2,500	2,511
Total Expenditures	19,415,775	18,929,766	16,429,174	15,028,873
Excess (Deficiency) of Revenues over Expenditures	137,167	(586,417)	1,319,577	2,139,792
Other Financing Sources (Uses):				
Insurance loss recoveries	13,995	66,051	611	500
Sale of other property				2,900
Operating transfers in	20,572	322,737	1,870,760	1,532,461
Operating transfers out	(479,764)	(505,484)	(613,247)	(1,710,454)
Total Other Financing Sources (Uses)	(445,197)	(116,696)	1,258,124	(174,593)
Net Change in Fund Balances	(308,030)	(703,113)	2,577,701	1,965,199
Fund Balances:				
July 1,	7,817,166	8,520,279	5,942,374	3,977,196
Prior period adjustments			204	(21)
July 1, as restated	7,817,166	8,520,279	5,942,578	3,977,175
June 30,	\$ 7,509,136	7,817,166	8,520,279	5,942,374

*SOURCE - PRIOR YEAR AUDIT REPORTS

HOLMES COUNTY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

"UNAUDITED"

All Governmental Funds

Last Four Years

	2008	2007*	2006*	2005*
Revenues:				
Local sources	\$ 4,068,979	4,107,528	3,829,805	3,465,057
State sources	16,937,471	15,796,528	15,595,226	14,886,221
Federal sources	7,183,847	6,761,020	6,515,776	7,223,267
Sixteenth section sources	637,966	513,509	587,809	902,401
Total Revenues	<u>28,828,263</u>	<u>27,178,585</u>	<u>26,528,616</u>	<u>26,476,946</u>
Expenditures:				
Instruction	13,998,291	13,223,620	12,072,526	11,867,354
Support services	12,207,677	11,022,469	9,429,380	8,858,652
Noninstructional services	2,432,453	2,426,829	2,616,664	2,575,630
Sixteenth section	92,686	63,519	44,475	95,591
Facilities acquisition and construction			55,014	19,935
Debt service:				
Principal	760,000	735,000	700,000	685,001
Interest	293,473	318,988	347,738	374,050
Other	5,164	5,195	5,164	5,213
Total Expenditures	<u>29,789,744</u>	<u>27,795,620</u>	<u>25,270,961</u>	<u>24,481,426</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(961,481)</u>	<u>(617,035)</u>	<u>1,257,655</u>	<u>1,995,520</u>
Other Financing Sources (Uses):				
Insurance loss recoveries	13,995	66,051	611	500
Sale of other property				2,900
Operating transfers in	1,527,822	841,431	2,332,506	2,315,394
Other financing sources		462		(5,661)
Operating transfers out	<u>(1,527,822)</u>	<u>(841,431)</u>	<u>(2,332,506)</u>	<u>(2,315,394)</u>
Total Other Financing Sources (Uses)	<u>13,995</u>	<u>66,513</u>	<u>611</u>	<u>(2,261)</u>
Net Change in Fund Balances	<u>(947,486)</u>	<u>(550,522)</u>	<u>1,258,266</u>	<u>1,993,259</u>
Fund Balances:				
July 1,	10,381,908	10,917,579	9,662,994	7,656,781
Prior period adjustments			1,476	499
July 1, as restated	<u>10,381,908</u>	<u>10,917,579</u>	<u>9,664,470</u>	<u>7,657,280</u>
Increase (Decrease) in reserve for inventory	<u>(17,017)</u>	<u>14,851</u>	<u>(5,157)</u>	<u>12,455</u>
June 30,	<u>\$ 9,417,405</u>	<u>10,381,908</u>	<u>10,917,579</u>	<u>9,662,994</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

INTERNAL CONTROL AND COMPLIANCE REPORTS

FORTENBERRY & BALLARD, PC
Certified Public Accountants

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

Superintendent and School Board
Holmes County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Holmes County School District as of and for the year ended June 30, 2008, which collectively comprise the Holmes County School District's basic financial statements and have issued our report thereon dated July 22, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, process, record, 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 school district's financial statements that is more than inconsequential will not be prevented or detected by the school district's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as Findings 2008-1 and 2008-2 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose

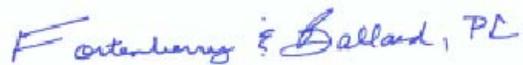
described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 a certain immaterial instance of noncompliance or other matter that we have reported to management of the school district in a separate letter dated July 22, 2009, which is included in this report.

Holmes County School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Holmes County School District responses and, accordingly, we express no opinion on them.

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



Fortenberry & Ballard, PC
July 22, 2009

Certified Public Accountants

FORTENBERRY & BALLARD, PC
Certified Public Accountants

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

Superintendent and School Board
Holmes County School District

Compliance

We have audited the compliance of the Holmes County School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The school district's major federal programs are identified in the summary of the 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 and 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 our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the school district's compliance with those requirements.

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

Internal Control Over Compliance

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

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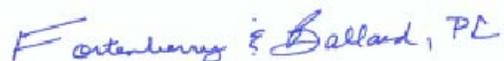
compliance.

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.



Fortenberry & Ballard, PC
July 22, 2009

Certified Public Accountants

FORTENBERRY & BALLARD, PC
Certified Public Accountants

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

Superintendent and School Board
Holmes County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Holmes County School District as of and for the year ended June 30, 2008, and have issued our report thereon dated July 22, 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 \$25,062 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 instance of noncompliance with other state laws and regulations. Our finding and recommendation and your response are as follows:

Finding 1:

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

Recommendation:

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

School District's Response:

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

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

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

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

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
July 22, 2009

Certified Public Accountants

FINDINGS, CORRECTIVE ACTION PLAN AND AUDIT FOLLOW-UP

Holmes County School District

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2008

Section 1: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

4. Type of auditor's report issued on compliance for major federal programs: Unqualified.
5. Internal control over major programs:
 - a. Material weakness(es) identified? No.
 - b. Significant deficiency(ies) identified that are not considered to be material weaknesses? No.
6. Any audit findings reported as required by Section __.510(a) of OMB 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. Title I Grants to Local Educational Agencies:
CFDA # 84.010
 - c. Special Education Cluster:
CFDA # 84.027
CFDA # 84.173
8. The dollar threshold used to distinguish between Type A and Type B programs: \$300,000.
9. Auditee qualified as a low-risk auditee? No.

10. Prior fiscal year audit findings and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____ .315(b) of OMB Circular A-133? Yes.

Section 2: Findings Relating to the Financial Statements

The results of our tests disclosed the following findings related to the financial statements that are required to be reported by *Government Auditing Standards*.

Significant Deficiencies:

Finding 2008-1:

Sound internal control dictates that the individual responsible for recording transactions should not be the same individual responsible for reviewing and/or reconciling the related accounts. While our observation of the bank account reconciliations and journal entry transaction postings revealed that these processes are being performed in a timely and accurate manner, the Business Manager is responsible for both recording transactions through the journal entry process and reconciling the bank statements. Control account reconciliation review should be performed by someone other than the person performing the recording function. When one individual performs both the recording and reconciling functions, proper independent oversight of these tasks is not being achieved.

Recommendation:

Duties should be separated so that the Business Manager is not the only person involved in the bank account reconciliation process and the journal entry recording processes. Someone other than the Business Manager should be responsible for the initial preparation of the bank reconciliations and the recording of journal entries. Alternatively, if these processes continue to be performed by the Business Manager, someone in a higher managerial or administrative role should review and approve these processes in order to achieve a proper level of oversight.

School District's Response:

The School District will implement control procedures to ensure that bank accounts are reconciled in a timely manner and segregation of duties are enforced.

Finding 2008-2

An effective system of internal controls should provide for timely and accurate bank reconciliations of accounts payable and other liabilities. We found that accounts payable clearing nor payroll bank accounts were reconciled. Lack of bank reconciliations of accounts payable and other liabilities could cause the district's accounts balances to be overstated or understated.

Recommendation:

The school district should reconcile the accounts payable and payroll clearing cash accounts to books.

Response:

The district will reconcile the bank accounts in a timely manner.

Section 3: Findings and Questioned Costs for Federal Awards

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

Holmes County School District
P.O. Box 630
Lexington, MS 39095
Powell Rucker - Superintendent
Kathy Sample - Business Manager

AUDITEE'S CORRECTIVE ACTION PLAN

As required by Section __.315(b) of OMB Circular A-133, the Holmes County School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the Year ended June 30, 2008:

<u>Finding</u>	<u>Corrective Action Plan Details</u>
2008-1	<p>a. Name of Contact Person Responsible for Corrective Action:</p> <p>Name: Kathy Sample Title: Business Manager Phone Number: 662-834-2175</p> <p>b. Corrective Action Planned:</p> <p>The school district will implement control procedures to ensure that bank accounts are reconciled in a timely manner and segregation of duties are enforced.</p> <p>c. Anticipated Completion Date:</p> <p>06/30/2009</p>
2008-2	<p>a. Name of Contact Person Responsible for Corrective Action:</p> <p>Name: Kathy Sample Title: Business Manager Phone Number: 662-834-2175</p> <p>b. Corrective Action Planned:</p> <p>The school district will reconcile the accounts payable and payroll clearing cash accounts to books.</p> <p>c. Anticipated Completion Date:</p> <p>06/30/2009</p>

Holmes County School District
P.O. Box 630
Lexington, MS 39095
Powell Rucker - Superintendent
Kathy Sample - Business Manager

AUDITEE'S SUMMARY OF PRIOR YEAR AUDIT FINDINGS

As required by Section ____.315(b) of OMB Circular A-133, the Holmes County School District has prepared and hereby submits the following summary of prior year audit findings as of June 30, 2008:

<u>Finding</u>	<u>Status</u>
07-1	Corrected
07-2	Corrected
07-3	Corrected
07-4	Not Corrected
07-5	Not Corrected
07-6	Corrected