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

**AUDITED
FINANCIAL STATEMENTS**

JUNE 30, 2008

**The Sparks CPA Firm, P.C.
Certified Public Accountants**

HOLLY SPRINGS SCHOOL DISTRICT
 Holly Springs, Mississippi
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 June 30, 2008

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FINANCIAL AUDIT REPORT

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

Superintendent and School Board
Holly Springs School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Holly Springs School District as of and for the year ended June 30, 2008, which collectively comprise the Holly Springs School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Holly Springs School District's management. Our responsibility is to express 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 Holly Springs School District as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2009, on our consideration of the Holly Springs School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, and budgetary comparison schedule and corresponding notes on pages 6 through 13 and 36 through 39, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

The Sparks CPA Firm, P.C.
The Sparks CPA Firm, P.C.
Certified Public Accountants
December 15, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

HOLLY SPRINGS SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2008

The discussion and analysis of Holly Springs School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 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 for 2008 increased \$291,066, including a prior period adjustment of \$5,932, which represents 3.9% increase from fiscal year 2007. Total net assets for 2007 increased \$295,744, which represents a 4.2% increase from fiscal year 2006.
- General revenues account for \$11,836,375 and \$11,362,300 in revenue, or 76.7% and 75.8% of all revenues for fiscal years 2008 and 2007 respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$3,593,726 or 23.3% of total revenues for 2008 and \$3,624,420 or 24.2 % of total revenues for 2007.
- The District had \$15,144,967 and \$14,690,976 in expenses for fiscal years 2008 and 2007; only \$3,593,726 for 2008 and \$3,624,420 for 2007 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$11,836,375 for 2008 and \$11,362,300 for 2007 were adequate to provide for these programs.
- Among major funds, the General Fund had \$11,499,187 in revenues and \$11,013,082 in expenditures for 2008 and \$11,043,876 in revenues and \$10,489,632 in expenditures in 2007. The General Fund's fund balance increased by \$309,848 from 2007 to 2008 and decreased \$85,781 from 2006 to 2007.
- Capital assets, net of accumulated depreciation, decreased by \$192,294 for 2008 and decreased by \$65,508 for 2007. The decrease for 2008 was due to the disposal of four (4) school buses as well as the increase in accumulated depreciation.
- Long-term debt decreased by \$149,692 for 2008 and decreased by \$399,574 for 2007. This decrease was due to the annual payment on long-term debt outstanding. The liability for compensated absences decreased by \$2,002 for 2008 and increased by \$5,426 for 2007.

OVERVIEW OF THE 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.

HOLLY SPRINGS SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2008

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, and interest on long-term liabilities.

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's balance sheet and the governmental fund's statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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's balance sheet and in the governmental fund's 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.

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.

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 immediately following the basic financial statements.

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional special revenue major fund.

HOLLY SPRINGS SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2008

Additionally, a schedule of expenditures of federal awards as required by OMB Circular A-133 and a schedule of instructional, administrative and other expenditures for governmental funds can be found in this report.

The supplemental information section, which includes the Schedule of Instructional, Administrative and Other Expenditures – Governmental Funds, 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 and can be found on pages 43-46

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 \$7,688,253 as of June 30, 2008.

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

Table 1 presents a summary of the District's net assets for the fiscal years ended June 30, 2008 and June 30, 2007.

Table 1
Condensed Statement of Net Assets

	June 30, 2008	June 30, 2007	Total Percentage Change
Assets:			
Current assets	\$ 3,546,988	\$ 3,428,460	3.46%
Capital assets, net	9,031,525	9,223,819	(2.08)%
Total assets	12,578,493	12,652,279	(0.58)%
Liabilities:			
Current liabilities	312,083	527,243	(40.81)%
Long-term debt outstanding	4,578,157	4,727,849	(3.17)%
Total liabilities	4,890,240	5,255,092	(6.94)%
Net assets:			
Invested in capital assets, net of related debt	4,786,525	4,558,819	5.00%
Restricted	353,278	329,458	7.23%
Unrestricted	2,548,450	2,508,910	1.58%
Total net assets	\$ 7,688,253	\$ 7,397,187	3.93%

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

- The principal retirement of \$420,000 of long-term debt.

Changes in net assets. The District's total revenues for the fiscal years ended June 30, 2008 and June 30, 2007 were \$15,430,101 and \$14,986,720, respectively. The total cost of all programs and services for 2008 was \$15,144,967 and \$14,690,976 for 2007. Table 2 presents a summary of the changes in net assets for the fiscal years ended June 30, 2008 and June 30, 2007.

**HOLLY SPRINGS SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2008**

**Table 2
Change(s) In Net Assets**

	<u>June 30, 2008</u>	<u>June 30, 2007</u>	<u>Total Percentage Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 190,654	\$ 197,674	(3.55)%
Operating grants and contributions	3,403,072	3,426,746	(0.69)%
General revenues:			
Property taxes	2,537,135	2,634,704	(3.70)%
Grants and contributions not restricted	9,211,076	8,623,682	6.81%
Other	88,164	103,914	(15.16)%
Total Revenues	\$ 15,430,101	\$ 14,986,720	2.96%
Expenses:			
Instruction	\$ 8,304,257	\$ 8,157,397	1.80%
Support services	5,505,787	5,341,451	3.08%
Non-instructional	1,122,649	956,046	17.43%
Interest and other expense on long-term liabilities	212,274	236,082	(10.08)%
Total expenses	\$ 15,144,967	\$ 14,690,976	3.09%
Increase (Decrease) in net assets	\$ 285,134	\$ 295,744	(3.59)%

Governmental activities. The following table presents the cost of four major District functional activities: instruction, support services, non-instructional, 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.

**Table 3
Net Cost of Governmental Activities**

	<u>Total Expenses</u>		<u>Total Percentage Change</u>
	<u>2008</u>	<u>2007</u>	<u>2007-2008</u>
Instruction	\$ 8,304,257	\$ 8,157,397	1.80%
Support services	5,505,787	5,341,451	3.08%
Non-instructional	1,122,649	956,046	17.43%
Interest on long-term debt	212,274	236,082	(10.08)%
Total expenses	\$ 15,144,967	\$ 14,690,976	3.09%

**HOLLY SPRINGS SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2008**

	Net (Expense) Revenue		Total Percentage Change
	2008	2007	2007-2008
Instruction	\$ (6,797,423)	\$ (6,582,971)	3.26%
Support services	(4,474,077)	(3,833,439)	16.71%
Non-instructional	(67,467)	(414,064)	(83.71)%
Interest on long-term debt	(212,274)	(236,082)	(10.08)%
Total net (expense) revenue	\$ (11,551,241)	\$ (11,066,556)	4.38%

- Net cost of governmental activities, (\$11,551,241 and \$11,066,556), was financed by general revenue, which is made up of primarily property taxes (\$2,537,135 for 2008 and \$2,634,704 for 2007) and state and federal revenues (\$9,211,076 for 2008 and \$8,623,682 for 2007).
- Investment earnings accounted for \$70,726 for 2008 and \$80,799 for 2007 of funding.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$3,301,104, an increase of \$328,356, which includes the decrease in inventory of \$880. \$2,849,861 or 86.33% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$451,243 or 13.67% is reserved or designated to indicate that it is not available for spending because it has already been committed. The areas of commitment are as follows:

Unemployment benefits	\$	38,753
Inventory		19,316
Prepaid items		32,510
Debt service funds		268,423
Unreserved: Designated for, reported in:		
Special Revenue Funds		92,241
Total reserved fund balance	\$	451,243

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$309,848. This increase was primarily due to unanticipated federal revenues of \$185,800 and entering a capital lease in the amount of \$163,351 to purchase classroom computer equipment. The fund balance of Other Governmental Funds showed an increase in the amount of \$19,388. There were no increases or decreases in the fund balances for the two other major funds.

**HOLLY SPRINGS SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2008**

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget. Significant revisions include:

- Budgeted amounts for state revenues were decreased by \$89,683 due to a reduction in MAEP allocations made during the fiscal year.
- Budgeted amounts for revenue from federal sources were increased for the reimbursements from E-rate and Medicaid administration and unanticipated TVA revenue by \$166,158.
- Budgeted amounts for support services decreased by \$287,254 due to the overestimation of utilities and repairs.

Budget revisions were made to address and correct the original budgets to reflect more accurately the sources and uses of funding for the school district.

A schedule showing the original and final budget amounts compared to the District's actual financial activity for the General Fund and special revenue major 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 were \$13,968,211, including land, school buildings, building improvements, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$78,527 from 2007 to 2008 and an increase of \$280,898 from 2006 to 2007. Total accumulated depreciation as of June 30, 2008, was \$4,936,686 and total depreciation expense for the year was \$418,062, resulting in total net assets of \$9,031,525.

**Table 4
Capital Assets**

	Capital Assets, Net of Depreciation		Total Percentage Change
	2008	2007	2007-2008
Land	\$ 65,155	\$ 65,155	0%
Buildings	7,381,707	7,567,537	(2.46)%
Construction in progress	-0-	130,172	(100.00)%
Building improvements	672,505	707,456	(4.94)%
Improvements other than buildings	189,514	61,808	206.62%
Mobile equipment	463,595	555,243	(16.51)%
Furniture and equipment	254,477	138,448	86.50%
Equipment under capital lease	4,572	-0-	
Total	\$ 9,031,525	\$ 9,223,819	(2.08)%

Debt Administration.

At June 30, 2008, the District had \$4,578,157 in long-term debt outstanding, of which \$549,527 is due within one year. In addition, the liability for compensated absences decreased from the prior year. The district issued shortfall notes in the amount of \$166,743 and a capital lease in the amount of \$163,351 during the fiscal year.

**HOLLY SPRINGS SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2008**

The District maintains an AA-/Stable bond rating.

**Table 5
Outstanding Long-Term Debt at June 30**

	Outstanding Long-Term Debt		Total Percentage Change
	2008	2007	2007-2008
General obligation bonds payable	\$ 1,930,000	\$ 2,080,000	(7.21)%
Limited obligation bonds payable	2,315,000	2,475,000	(6.46)%
Three mill notes payable		110,000	(100.00)%
Shortfall notes payable	166,743		
Obligations under capital lease	105,567		
Compensated absences payable	60,847	62,849	(3.19)%
Total	\$ 4,578,157	\$ 4,727,849	(3.17)%

Additional information on the district's long-term debt can be found in Note 5 included in this report.

CURRENT ISSUES

The Holly Springs School District is financially stable. The District is proud of its community support of the public schools.

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

The District actively pursues grant funding to supplement the local, state and federal revenue. Enrollment for the 2007-2008 year increased by 5.87 % or ninety-four (94) students.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

FINANCIAL STATEMENTS

HOLLY SPRINGS SCHOOL DISTRICT
Statement of Net Assets
June 30, 2008

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 2,383,787
Cash with fiscal agents	112,087
Due from other governments	799,894
Other receivables, net	197,107
Inventories and prepaid items	54,113
Capital assets, non-depreciable:	
Land	65,155
Capital assets, net of accumulated depreciation:	
Buildings	7,361,707
Building improvements	672,505
Improvements other than buildings	189,514
Mobile equipment	463,595
Furniture and equipment	254,477
Leased property under capital leases	4,572
Total Assets	12,576,493
Liabilities	
Accounts payable and accrued liabilities	245,758
Unearned revenue	108
Interest payable on long-term liabilities	66,219
Long-term liabilities, due within one year	
Capital related liabilities	325,000
Non-capital related liabilities	224,527
Long-term liabilities, due beyond one year	
Capital related liabilities	3,920,000
Non-capital related liabilities	108,630
Total Liabilities	4,690,240
Net Assets	
Invested in capital assets, net of related debt	4,786,525
Restricted net assets:	
Expendable:	
School-based activities	112,321
Debt service	202,204
Unemployment benefits	36,753
Unrestricted	2,548,450
Total Net Assets	\$ 7,686,253

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

HOLLY SPRINGS SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction	\$ 8,304,257	125,141	1,381,693		(6,797,423)
Support services	5,505,787	21,344	1,010,366		(4,474,077)
Non-instructional	1,122,649	44,169	1,011,013		(67,467)
Interest on long-term liabilities	212,274				(212,274)
Total Governmental Activities	\$ 15,144,967	190,654	3,403,072		(11,551,241)
		General Revenues:			
		Taxes:			
					2,247,898
					289,437
		Unrestricted grants and contributions:			
					9,003,257
					207,819
					70,728
					17,438
					<u>11,836,375</u>
		Total General Revenues, Special Items, Extraordinary Items and Transfers			<u>11,836,375</u>
		Change in Net Assets			<u>285,134</u>
		Net Assets - Beginning			7,397,187
		Prior Period Adjustments			<u>5,932</u>
		Net Assets - Beginning - Restated			<u>7,403,119</u>
		Net Assets - Ending			<u>\$ 7,688,253</u>

HOLLY SPRINGS SCHOOL DISTRICT
Balance Sheet - Governmental Funds
June 30, 2008

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	Food Service	Distance Learning Grant		
ASSETS					
Cash and cash equivalents	\$ 2,029,536	81,908		272,343	2,383,787
Cash with fiscal agents	112,067				112,067
Due from other governments	164,917		392,054	242,923	799,894
Other receivables, net	185,755	2,863		19,461	188,099
Due from other funds	574,200	4,582		23,177	601,959
Inventories and prepaid items	34,033	19,316		764	54,113
Total Assets	\$ 3,080,508	108,669	392,054	558,688	4,139,919
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payables and accrued liabilities	\$ 175,735	33		69,646	245,414
Due to other funds	23,166	89,320	392,054	88,753	593,293
Deferred revenue				106	108
Total Liabilities	198,901	69,353	392,054	158,507	838,815
Fund Balances:					
Reserved for:					
Unemployment benefits				38,753	38,753
Inventory		19,316			19,316
Prepaid items	31,746			764	32,510
Debt service funds				268,423	268,423
Unreserved:					
Designated for, reported in:					
Special revenue funds				92,241	92,241
Undesignated, reported in:					
General Fund	2,849,861				2,849,861
Total Fund Balances	2,881,607	19,316	-	400,181	3,301,104
Total Liabilities and Fund Balances	\$ 3,080,508	108,669	392,054	558,688	4,139,919

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

HOLLY SPRINGS SCHOOL DISTRICT
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2008

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 3,301,104
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets are used in governmental activities and are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$4,936,686.	9,031,525
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(4,578,157)
3. Governmental funds recognize interest on long-term debt when it becomes due, however the Statement of Net Assets recognizes interest as it accrues.	(88,219)
	<u><u>7,688,253</u></u>
Total Net Assets - Governmental Activities	\$ <u><u>7,688,253</u></u>

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

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	Food Service	Distance Learning Grant		
Revenues:					
Local sources	\$ 2,471,186	41,310		299,387	2,811,883
State sources	8,755,539	5,002		610,615	9,371,158
Federal sources	272,462	867,138	392,054	1,711,341	3,242,993
Total Revenues	11,499,187	913,448	392,054	2,621,343	15,426,032
Expenditures:					
Instruction	6,665,421		109,284	1,418,121	8,192,806
Support services	4,289,877	95,160	119,211	930,631	5,434,879
Non-instructional services		882,044	163,579	64,311	1,109,934
Debt Services					
Principal	57,784			420,000	477,784
Interest				214,209	214,209
Other				3,377	3,377
Total Expenditures	11,013,082	977,204	392,054	3,050,649	15,432,989
Excess (Deficiency) of Revenues Over Expenditures	486,105	(63,756)		(429,306)	(6,957)
Other Financing Sources (Uses):					
Proceeds of Debt Issuances	311,083			19,011	330,094
Insurance Loss Recoveries	2,505				2,505
Proceeds from Asset Sales	3,951				3,951
Operating Transfers In	39,236	65,140		469,276	573,652
Operating Transfers Out	(533,032)	(1,384)		(39,236)	(573,652)
Miscellaneous Other Uses				(357)	(357)
Total Other Financing Sources (Uses)	(176,257)	63,756		446,694	336,193
Net Change in Fund Balances	309,848			19,388	329,236
Fund Balances:					
July 1, 2007	2,571,759	20,196		380,793	2,972,748
Decrease in reserve for inventory		(880)			(880)
June 30, 2008	\$ 2,881,807	19,316		400,181	3,301,104

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

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

		Amount
Net Change in Fund Balances - Governmental Funds	\$	329,236
Amounts reported for governmental activities in the Statement of Activities are different because:		
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchased amounted to \$233,253 and the depreciation expense amounted to \$418,062.		(184,809)
2. Loan proceeds for long-term liabilities is reported as an other financing source in the governmental funds, but the proceeds increase long-term liabilities in the Statement of Net Assets.		(330,094)
3. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Net Assets.		477,784
4. Governmental funds recognize interest on long-term debt when it becomes due, however, the Statement of Activities recognizes interest as it accrues regardless of when it becomes due.		5,312
5. Gains and losses on the sale or disposals of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds.		(13,417)
6. Increase (decrease) in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are (decreased) increased in the Statement of Activities.		(680)
7. Expenses in the Statement of Activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds:		
Compensated absences (net change)		2,002
Change in Net Assets of Governmental Activities	\$	285,134

HOLLY SPRINGS SCHOOL DISTRICT
 Statement of Fiduciary Assets and Liabilities
 June 30, 2008

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 730,168
Due from other funds	342
Other receivables, net	<u>87</u>
Total Assets	\$ <u>730,597</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 689,954
Due to other funds	9,008
Due to student clubs	<u>31,635</u>
Total Liabilities	\$ <u>730,597</u>

HOLLY SPRINGS SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2008

(1) Summary of Significant Accounting Policies.

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

A. Financial Reporting Entity.

As defined by accounting principles generally accepted in the United States of America, the school district is considered an "other stand-alone government." The school district is a related organization of, but not a component unit of, the city of Holly Springs since the governing authority of the city selects a majority of the school district's board but does not have financial accountability for the school district.

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

B. Basis of Presentation.

Government-wide Financial Statements:

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

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

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

HOLLY SPRINGS SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2008

and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements:

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

The school district reports the following major governmental funds:

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

Food Service Fund - This is the school district's fund for accounting for the food service operation of the schools for the regular school year.

Distance Learning Grant - This is the school district's fund for accounting for the federal telecommunications grant received by the District. Telecommunication and computer network equipment was purchased for the District, Rust College, Marshall County Health Department, and the Quitman County School District with the proceeds of this grant.

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL 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.

FIDUCIARY FUND

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

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.

HOLLY SPRINGS SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2008

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

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

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

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

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

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

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

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

D. Account Classifications.

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

E. Encumbrances.

An encumbrance system is maintained to account for commitments resulting from purchase orders, work orders, and contracts during the fiscal year. However, the school district attempts to

HOLLY SPRINGS SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2008

liquidate all encumbrances at year-end. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

F. Assets, liabilities, and net assets or equity

1. Cash, Cash equivalents and Investments

Cash and cash equivalents.

The district's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The school district deposits excess funds in the financial institutions selected by the school board. State statutes specify how these depositories are to be selected.

Investments.

The school district can invest its excess funds, as permitted by Section 29-3-113, Miss. Code Ann. (1972), in interest-bearing deposits or other obligations of the types described in Section 27-105-33, Miss. Code Ann. (1972), or in any other type investment in which any other agency, instrumentality or subdivision of the State of Mississippi may invest, except that 100% of said funds are authorized to be so invested.

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

Investments for the district are reported at fair market value.

2. Receivables and payables

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

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

3. Due from Other Governments

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

4. Inventories and Prepaid Items.

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

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

HOLLY SPRINGS SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2008

5. Restricted Assets

Certain resources set aside for repayment of debt are classified as restricted assets on the Statement of Net Assets because their use is limited by applicable debt statutes.

6. Capital Assets.

Capital assets, which include property, plant, furniture and equipment, are reported in the applicable governmental 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 with an initial, individual cost in excess of the thresholds in the following table and estimated useful lives in excess of two years.

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

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

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

(*) The threshold amount will correspond with the amounts for the asset classifications, as listed. See Note 4 for details.

7. Compensated Absences.

Employees of the school district accumulate sick leave at a minimum amount as required by state law. A greater amount may be provided by school district policy provided that it does not exceed the provisions for leave as provided in Sections 25-3-93 and 25-3-95. Some employees are allowed personal leave and/or vacation leave in accordance with school district policy. The district pays for unused leave for employees as required by Section 37-7-307(5), Miss. Code Ann. (1972).

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

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

In the government-wide financial statements, outstanding debt is reported as liabilities. Bond issue cost, bond discounts or premiums, and the difference between reacquisition price and

HOLLY SPRINGS SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2008

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 5 for details.

9. Fund equity.

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

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

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

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

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

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

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

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

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

(2) Cash and Cash Equivalents and Cash with Fiscal Agents.

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

Deposits. The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the school districts' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must

HOLLY SPRINGS SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2008

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.

Cash and Cash Equivalents.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$2,383,787 and \$730,168, respectively. The bank balance was \$3,481,223.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2008, none of the district's bank balance of \$3,481,223 was exposed to custodial credit risk.

Cash with Fiscal Agents.

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$112,067.

(3) Interfund Receivables, Payables and Transfers.

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	Food Service Fund	\$ 89,320
	Distance Learning Grant	392,054
	Other governmental funds	83,958
	Fiduciary funds	8,868
Food Service Fund	Other governmental funds	4,578
	Fiduciary funds	4
Other governmental funds	General Fund	23,166
	Fiduciary	11
Fiduciary funds	Other governmental funds	217
	Fiduciary funds	125
Total		<u>\$ 602,301</u>

The purpose of the interfund loans was to cover federal funds and/or ad valorem taxes not received prior to year end.

HOLLY SPRINGS SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2008

B. Interfund Transfers.

Transfer Out	Transfer In	Amount
General Fund	Food Service Fund	\$ 65,140
	Other governmental funds	467,892
Food Service Fund	Other governmental funds	1,384
Other governmental funds	General Fund	39,236
Total		\$ <u>573,652</u>

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

(4) Capital Assets.

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

	Balance 7/01/2007	Additions	Retirements	Completed Construction	Adjustments	Balance 6/30/2008
Non-depreciable capital assets:						
Land	\$ 65,155					65,155
Construction in progress	130,172	6,074		(136,246)		
Total non-depreciable capital assets	195,327	6,074		(136,246)		65,155
Depreciable capital assets:						
Buildings	10,574,905					10,574,905
Building improvements	873,756					873,756
Improvements other than buildings	77,259	136,246				213,505
Mobile equipment	1,504,676		(130,030)			1,374,646
Furniture and equipment	663,761	220,648	(41,386)		16,690	859,713
Equipment under capital lease		6,531				6,531
Total depreciable capital assets	13,694,357	363,425	(171,416)		16,690	13,903,056
Less accumulated depreciation:						
Buildings	3,007,368	185,830				3,193,198
Building improvements	166,300	34,951				201,251
Improvements other than buildings	15,451	8,540				23,991
Mobile equipment	949,433	78,645	(117,027)			911,051
Furniture and equipment	527,313	108,137	(40,972)		10,758	605,236
Equipment under capital lease		1,959				1,959
Total accumulated depreciation	4,665,865	418,062	(157,999)		10,758	4,936,686
Total depreciable capital assets, net	9,028,492	(54,637)	(13,417)		5,932	8,966,370
Governmental activities capital assets, net	\$ 9,223,819	(48,563)	(13,417)	(136,246)	5,932	9,031,525

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 301,007
Support services	104,161
Non-instructional	12,894
Total Depreciation Expense	\$ <u>418,062</u>

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

HOLLY SPRINGS SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2008

(5) Long-term Liabilities.

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

	Balance 7-1-2007	Additions	Reductions	Balance 6-30-2008	Amounts due within one year
A. General obligation bonds payable	\$ 2,080,000		150,000	1,930,000	155,000
B. Limited obligations bonds payable	2,475,000		160,000	2,315,000	170,000
C. Three mill notes payable	110,000		110,000		
D. Shortfall notes payable		166,743		166,743	166,743
E. Obligations under capital lease		163,351	57,784	105,567	57,784
F. Compensated absences payable	62,849	3,814	5,818	60,847	
Total	\$ 4,727,849	333,908	483,600	4,578,157	549,527

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(s)	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
1998 general obligation bonds	4.5%- 5.25%	06/01/1998	06/01/2018	<u>\$3,150,000</u>	<u>\$1,930,000</u>
Total				<u>\$3,150,000</u>	<u>\$1,930,000</u>

HOLLY SPRINGS SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2008

Details of the district's June 30, 2008 general obligation bonded indebtedness are as follows:

Bond issue of 1998

Year Ending June 30	Principal	Interest	Total
2009	\$ 155,000	90,142	245,142
2010	165,000	82,858	247,858
2011	170,000	75,020	245,020
2012	180,000	66,860	246,860
2013	185,000	58,220	243,220
2014 – 2018	1,075,000	150,405	1,225,405
Total	\$ 1,930,000	523,505	2,453,505

This debt will be retired from the Debt Service General Obligation Bond Fund.

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 3.2% of property assessments as of October 1, 2007.

B. Limited obligation bonds payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State Aid Capital Improvement	4.5 -5.25%	2/1/1998	2/1/2018	\$ 3,355,000	2,315,000
Total				\$ 3,355,000	2,315,000

Details of the district's June 30, 2008 limited obligation bonds indebtedness are as follows:

Limited obligation bond issue of 1998

Year Ending June 30	Principal	Interest	Total
2009	\$ 170,000	101,518	271,518
2010	175,000	92,588	267,588
2011	180,000	84,600	264,600
2012	190,000	76,275	266,275
2013	195,000	67,612	262,612
2014 – 2018	1,405,000	193,051	1,598,051
Total	\$ 2,315,000	615,644	2,930,644

This debt will be retired from the MAEP Bonds 1998 Debt Service Fund.

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

HOLLY SPRINGS SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2008

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.

C. Shortfall notes payable.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Shortfall Loan 2008	3.25%	08/15/2008	08/15/2009	\$ 166,743	166,743
Total				\$ 166,743	166,743

Details of the district's June 30, 2008 shortfall notes payable are as follows:

Shortfall notes payable issued 2008

Year Ending	Year Ending		
	Principal	Interest	Total
June 30 2009	\$ 166,743	5,419	172,162
Total	\$ 166,743	5,419	172,162

This debt will be retired from the Shortfall Loan Debt Service Fund.

D. Obligations under capital leases.

The school district has entered into a lease agreement as lessee for financing the acquisition of student laptop computers at a cost of \$163,351 with a down payment of \$57,784. This lease qualifies as a capital lease for accounting purposes.

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Student Laptop Computers	0%	07/05/2007	07/05/2009	\$ 163,351	105,567
Total				\$ 163,351	105,567

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

Year Ending June 30	Interest and Maintenance Charges		
	Principal		Total
2009	\$ 57,784		57,784
2010	\$ 47,783		47,783
Total	\$ 105,567		105,567

This debt will be retired from the General Maintenance Fund.

HOLLY SPRINGS SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2008

E. Compensated absences payable.

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

(6) Defined Benefit Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate for fiscal year ended June 30, 2008 was 11.85% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2008, 2007 and 2006 were \$962,898, \$926,937 and \$853,410, respectively, which equaled the required contributions for each year.

(7) Prior Period Adjustments/Exhibits.

A summary of significant fund equity adjustments is as follows:

Exhibit B - Statement of Activities

<u>Explanation(s)</u>	<u>Amount</u>
1. Correction to Fixed Assets	\$ <u>5,932</u>
Total	\$ <u><u>5,932</u></u>

(8) Contingencies.

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

Litigation.

The school district is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate the outcome or liability if any, of the school district with respect to the various proceedings. However, the school district's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the school district.

HOLLY SPRINGS SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2008

(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.

The school district is a member of the Mississippi Public Entity Workers' Compensation Trust (MPEWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust covers risks of loss arising from injuries to the school district's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MPEWCT contributes quarterly to a fund held in trust. The funds in the trust account are used to pay any claim up to \$1,000,000. For a claim exceeding \$1,000,000, MPEWCT has insurance which will pay the excess up to the statutory amount required by the Mississippi Workers Compensation commission Act. If the total claims during a year were to deplete the trust account, then the pool members would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

REQUIRED SUPPLEMENTARY INFORMATION

Holly Springs School District
 Budgetary Comparison Schedule
 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	\$ 2,712,843	2,471,186	2,471,186	(241,657)	
State sources	8,845,222	6,755,539	6,755,539	(69,683)	
Federal sources	88,861	272,482	272,482	185,601	
Total Revenues	11,644,726	11,499,187	11,499,187	(145,539)	
Expenditures:					
Instruction	6,482,928	6,665,421	6,665,421	(182,493)	
Support services	4,577,131	4,269,877	4,269,877	287,254	
Debt service:					
Principal		57,784	57,784	(57,784)	
Total Expenditures	11,060,057	11,013,082	11,013,082	48,975	
Excess (Deficiency) of Revenues over Expenditures	584,669	486,105	486,105	(98,564)	
Other Financing Sources (Uses):					
Proceeds of Debt Issuances		311,083	311,083	311,083	
Insurance loss recoveries		2,505	2,505	2,505	
Proceeds from Asset Sale		3,951	3,951	3,951	
Operating transfers in	41,000	39,236	39,236	(1,784)	
Operating transfers out	(518,920)	(533,032)	(533,032)	(18,112)	
Total Other Financing Sources (Uses)	(475,920)	(178,257)	(178,257)	299,663	
Net Change in Fund Balances	108,749	308,848	308,848	201,099	
Fund Balances:					
July 1, 2007	2,571,758	2,571,759	2,571,759	1	
Prior period adjustments July 1, 2007, as restated	2,571,758	2,571,759	2,571,759		
June 30, 2008	\$ 2,880,507	2,881,807	2,881,807	201,100	

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

Holly Springs School District
 Budgetary Comparison Schedule
 School Food Service
 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	\$ 35,700	41,310	41,310	5,610	
State sources	8,000	5,002	5,002	(998)	
Federal sources	888,000	887,136	887,136	(20,864)	
Total Revenues	921,700	913,448	913,448	(18,252)	
Expenditures:					
Support services	95,686	95,180	95,180	526	
Noninstructional services	835,082	882,044	882,044	(46,962)	
Total Expenditures	930,768	977,204	977,204	(46,436)	
Excess (Deficiency) of Revenues over Expenditures	(1,068)	(83,756)	(63,756)	(62,688)	
Other Financing Sources (Uses):					
Operating transfers in		85,140	85,140	85,140	
Operating transfers out		(1,384)	(1,384)	(1,384)	
Total Other Financing Sources (Uses)		83,756	83,756	83,756	
Net Change in Fund Balances	(1,068)			1,068	
Fund Balances:					
July 1, 2007	(5,888)	8,232	20,186	14,120	11,964
Prior period adjustments					
July 1, 2007 as restated	(5,888)	8,232	20,186	14,120	11,964
Increase (Decrease) in reserve for inventory		11,084	(880)	11,084	(11,964)
June 30, 2008	\$ (6,856)	19,316	19,316	26,272	

Holly Springs School District
 Budgetary Comparison Schedule
 Distance Learning Grant
 For the Year Ended June 30, 2008

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	26,005	392,054	392,054	366,049	
Total Revenues	26,005	392,054	392,054	366,049	
Expenditures:					
Instruction		109,284	109,264	(109,284)	
Support services	26,005	119,211	119,211	(93,206)	
Noninstructional services		163,579	163,579	(163,579)	
Total Expenditures	26,005	392,054	392,054	(366,049)	
Excess (Deficiency) of Revenues over Expenditures					
Net Change in Fund Balances					
Fund Balances:					
July 1, 2007					
June 30, 2008	\$				

HOLLY SPRINGS 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 Schedule presents the original legally adopted budget, the final legally adopted budget, the actual data on the GAAP basis, variances between the original budget and the final budget, and variances between the final budget and the actual data.

(2) Budget Amendments and Revisions.

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

SUPPLEMENTARY INFORMATION

HOLLY SPRINGS SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

Federal Grantor/Pass - Through Grantor/Program or Cluster Title	CFDA Number	Total Federal Awards Expended
U.S. Department of Education		
<u>Direct Program</u>		
Twenty First Century Community Learning Centers	84.287	\$ 93,031
Literacy Through School Libraries	84.364	40,396
Total Direct from U.S. Department of Education		<u>133,427</u>
<u>Pass-Through Program From Mississippi Department of Education:</u>		
Special Education-Grants to States	84.027	492,545
Special Education-Preschool Grants	84.173	37,420
Sub-Total Special Education Cluster		<u>529,965</u>
Title I Grants to Local Educational Agencies	84.010	811,412
Career and Technical Education-Basic Grants to States	84.048	29,229
Safe and Drug-Free Schools and Communities-State Grants	84.186	9,745
Safe Grants for Innovative Programs	84.298	5,801
Education Technology State Grants	84.318	7,430
Improving Teacher Quality State Grants	84.367	179,893
Grants for State Assessments and Related Activities	84.369	132
Total passed through the Mississippi Department of Education		<u>1,573,807</u>
Total U.S. Department of Education		<u>1,707,034</u>
U.S. Department of Agriculture		
<u>Direct Program</u>		
Distance Learning and Telemedicine Loans and Grants	10.855	392,054
Total Direct from U.S. Department of Agriculture		<u>392,054</u>
<u>Pass-Through Program From Mississippi Department of Education:</u>		
School Breakfast Program	10.553	204,422
National School Lunch Program	10.555	662,714
Summer Food Service	10.559	13,732
Sub-Total Child Nutrition Cluster		<u>880,868</u>
Total passed through the Mississippi Department of Education		<u>880,868</u>
Total U.S. Department of Agriculture		<u>1,272,922</u>

The accompanying notes to the Schedule of Expenditures of Federal Awards is an integral part of this schedule.

HOLLY SPRINGS SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

U.S. Department of Health and Human Services

Pass-Through Program From Mississippi Department of Human Services:

Medical Assistance Program	93.778	4,000
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and other Important Health Issues	93.938	<u>108,306</u>
Total passed through Mississippi Department of Human Services		<u><u>112,306</u></u>
Total U.S. Department of Health and Human Services		<u><u>112,306</u></u>

Federal Communications Commission

Administered Through the Universal Service Administration Company:

The Schools and Libraries Program of the Universal Service Fund		45,057
Total Federal Communications Commission	32.XXX	<u>45,057</u>

U.S. Department of Defense

Direct Program:

Reserve Officers' Training Corps		51,219
Total U.S. Department of Defense	12.XXX	<u>51,219</u>

Total for All Federal Awards		\$	<u><u>3,188,538</u></u>
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Notes to Schedule

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

The accompanying notes to the Schedule of Expenditures of Federal Awards is an integral part of this schedule.

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

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 11,245,621	8,474,308	562,955	873,121	1,335,237
Other	4,187,368	1,228,928	186,130	15,003	2,757,309
Total	\$ 15,432,989	9,703,234	749,085	888,124	4,092,548
Total number of students*	1,696				
Cost per student	\$ 9,100	5,721	442	524	2,413

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

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

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

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

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

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

OTHER SUPPLEMENTAL INFORMATION

"UNAUDITED"

HOLLY SPRINGS SCHOOL DISTRICT
 Statement of Revenues, Expenditures and Changes in Fund Balances
 General Fund
 Last Four Years

	2008	2007*	2006*	2005*
Revenues:				
Local sources	\$ 2,471,186	2,559,678	2,476,212	2,377,924
State sources	8,755,539	8,236,549	7,998,567	7,217,788
Federal sources	272,462	247,649	167,199	170,374
Total Revenues	<u>11,499,187</u>	<u>11,043,876</u>	<u>10,641,978</u>	<u>9,766,086</u>
Expenditures:				
Instruction	6,665,421	6,143,902	6,219,717	5,608,946
Support services	4,289,877	4,345,262	3,919,576	3,849,599
Noninstructional services		468	1,585	
Debt service:				
Principal	57,784			
Total Expenditures	<u>11,013,082</u>	<u>10,489,632</u>	<u>10,140,878</u>	<u>9,458,545</u>
Excess (Deficiency) of Revenues over Expenditures	<u>486,105</u>	<u>554,244</u>	<u>501,100</u>	<u>307,541</u>
Other Financing Sources (Uses):				
Proceeds of debt issuances	311,083			
Insurance loss recoveries	2,505			875
Proceeds from asset sales	3,951			50
Operating transfers in	39,236	44,632	30,330	68,333
Operating transfers out	(533,032)	(681,339)	(612,083)	(552,594)
Other financing uses		(3,318)		(9,128)
Total Other Financing Sources (Uses)	<u>(176,257)</u>	<u>(640,025)</u>	<u>(581,753)</u>	<u>(492,464)</u>
Net Change in Fund Balances	<u>309,848</u>	<u>(85,781)</u>	<u>(80,653)</u>	<u>(184,923)</u>
Fund Balances:				
July 1,	2,571,759	2,654,222	2,726,335	2,931,494
Prior period adjustments				(20,236)
July 1, as restated	<u>2,571,759</u>	<u>2,654,222</u>	<u>2,726,335</u>	<u>2,911,258</u>
Residual equity transfer in (out)		3,318	8,540	
June 30,	<u>\$ 2,881,607</u>	<u>2,571,759</u>	<u>2,654,222</u>	<u>2,726,335</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

"UNAUDITED"

HOLLY SPRINGS SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Funds
Last Four Years

	<u>2008</u>	<u>2007*</u>	<u>2006*</u>	<u>2005*</u>
Revenues:				
Local sources	\$ 2,811,883	2,936,650	2,881,716	2,752,912
State sources	9,371,156	8,889,990	8,694,824	7,912,093
Federal sources	3,242,993	3,181,987	2,829,993	2,808,560
Total Revenues	<u>15,426,032</u>	<u>15,008,627</u>	<u>14,406,533</u>	<u>13,473,565</u>
Expenditures:				
Instruction	8,192,808	7,836,152	8,063,064	7,329,585
Support services	5,434,879	5,604,326	4,905,545	4,937,262
Noninstructional services	1,109,934	933,185	1,030,389	876,703
Debt service:				
Principal	477,784	405,000	385,000	365,000
Interest	214,209	237,606	259,715	280,541
Other	3,377	3,611	650	6,169
Total Expenditures	<u>15,432,989</u>	<u>15,019,880</u>	<u>14,644,363</u>	<u>13,795,260</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(6,957)</u>	<u>(11,253)</u>	<u>(237,830)</u>	<u>(321,695)</u>
Other Financing Sources (Uses):				
Proceeds of debt issuance	330,094			
Insurance loss recoveries	2,505			875
Proceeds from sale of assets	3,951			50
Operating transfers in	573,652	725,971	650,110	565,415
Operating transfers out	(573,652)	(725,971)	(650,110)	(565,415)
Other financing uses	(357)	(21,907)		(9,128)
Total Other Financing Sources (Uses)	<u>336,193</u>	<u>(21,907)</u>	<u>0</u>	<u>(8,203)</u>
Net Change in Fund Balances	<u>329,236</u>	<u>(33,160)</u>	<u>(237,830)</u>	<u>(329,898)</u>
Fund Balances:				
July 1,	2,972,748	3,016,205	3,244,140	3,596,924
Prior period adjustments				(21,080)
July 1, as restated	<u>2,972,748</u>	<u>3,016,205</u>	<u>3,244,140</u>	<u>3,575,844</u>
Increase (Decrease) in reserve for inventory	<u>(880)</u>	<u>(10,297)</u>	<u>9,895</u>	<u>(1,806)</u>
June 30,	<u>\$ 3,301,104</u>	<u>2,972,748</u>	<u>3,016,205</u>	<u>3,244,140</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

INTERNAL CONTROL AND COMPLIANCE REPORTS

**INDEPENDENT AUDITORS' 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
Holly Springs School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Holly Springs School District as of and for the year ended June 30, 2008, which collectively comprise Holly Springs School District's basic financial statements and have issued our report thereon dated December 15, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

Compliance and Other Matters

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

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.

The Sparks CPA Firm, P.C.

The Sparks CPA Firm, P.C.
Certified Public Accountants
Red Bay, Alabama
December 15, 2009

**INDEPENDENT AUDITORS' 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
Holly Springs School District

Compliance

We have audited the compliance of the Holly Springs 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 Holly Springs School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Holly Springs School District's management. Our responsibility is to express an opinion on the school district's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Holly Springs School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the school district's compliance with those requirements.

In our opinion, the Holly Springs School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as Finding 2008-2.

Internal Control Over Compliance

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

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

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on

a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in the internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as Finding 2008-1 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We consider the significant deficiency described in the accompanying Schedule of Findings and Questioned costs as Finding 2008-1 to be a material weakness.

Holly Springs School District's response to the finding identified in our audit is described in the accompanying Auditee's Corrective Action Plan. We did not audit Holly Springs School District's response and, accordingly, we express no opinion on it.

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


The Sparks CPA Firm, P.C.
Certified Public Accountants
Red Bay, Alabama
December 15, 2009

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

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

Superintendent and School Board
Holly Springs School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Holly Springs School District as of and for the year ended June 30, 2008, which collectively comprise Holly Springs School District's basic financial statements and have issued our report thereon dated December 15, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Section 37-9-18(3)(a), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure that the school district is complying with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds." As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$16,743 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 did not disclose any instances of noncompliance with other state laws and regulations.

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

The Sparks CPA Firm, P.C.

The Sparks CPA Firm, P.C.
Certified Public Accountants
Red Bay, Alabama
December 15, 2009

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

HOLLY SPRINGS SCHOOL DISTRICT
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2008

Section 1: Summary of Auditors' Results

Financial Statements:

- | | | |
|----|--|-------------|
| 1. | Type of auditors' report issued: | Unqualified |
| 2. | Internal control over financial reporting: | |
| | a. Material weakness(es) identified? | No |
| | b. Significant deficiency(ies) identified that are not considered to be material weakness(es)? | No |
| 3. | Noncompliance material to financial statements noted? | No |

Federal Awards:

- | | | |
|----|---|-------------|
| 4. | Internal control over major programs: | |
| | a. Material weakness(es) identified? | Yes |
| | b. Significant deficiency(ies) identified that are not Considered to be material weakness(es)? | No |
| 5. | Any findings disclosed that are required to be Reported in accordance with Section 510(a) of Circular A-133? | Yes |
| 6. | Type of auditors' report issued on compliance for Major federal programs: | Unqualified |
| 7. | Identification of major programs: | |
| | a. Title I Grants to Local Educational Agencies
CFDA# 84.010 | |
| | b. Child Nutrition Cluster
CFDA# 10.553 School Breakfast Program
CFDA# 10.555 National School Lunch Program
CFDA# 10.559 Summer Food Service | |
| | c. Special Education Cluster
CFDA# 84.027 Special Education (IDEA) – Grants to States
CFDA# 84.173 Special Education (IDEA) – Preschool Grants | |
| | d. CFDA# 10.855 Distance Learning and Telemedicine Grant | |
| 8. | The dollar threshold used to distinguish between Type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as low-risk auditee? | No |

HOLLY SPRINGS SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008

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

Section 2: Financial Statement Findings

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

Section 3: Federal Award Findings and Questioned Costs

2008-1 Significant Deficiency – Material Weakness

Criteria: Internal controls should be in place to ensure that meal counts submitted for reimbursements are accurate.

Condition: Lack of management oversight and knowledge regarding the internal controls over the Child Nutrition Program caused inaccurate meal counts. This led to the school district not being reimbursed the full amount that was due.

Effect: Inadequate internal controls related to the counting of meals could result in the over collection or under collection of funds that would not be timely discovered.

Cause: These deficiencies occurred due to inadequate internal controls in the Child Nutrition Program.

Recommendation: We highly recommend that the district establish a strong system of controls and reporting procedures to insure that accurate meal counts are conducted.

2008-2

Criteria: It must be documented if a non-public school elects to not participate in federal Title I programs.

Condition: The Title I program is not in compliance with this requirement. There was no written notification from Marshall Academy declining Title I services from the school district.

Effect: The school district is not in compliance with A-133 requirements regarding the documentation of non-public schools participation in federal Title I programs.

Cause: The school district lacks proper documentation.

Recommendation: The school district should retain documentation showing the acceptance or declining of federal Title I services.



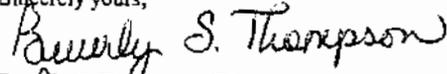
Holly Springs School District
Ms. Irene Walton, Superintendent of Education

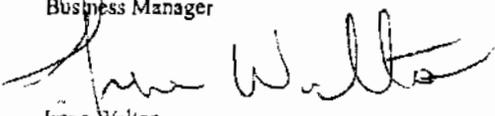
AUDITEE'S CORRECTIVE ACTION PLAN

As required by Section ___315(b) of OMB Circular A-133, the Holly Springs School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2008.

<u>Finding</u>	<u>Correction Action Plan Details</u>
2008-1.	<p>a. Name of Contact Person Responsible for Corrective Action</p> <p>Frederick Prowell, Food Service Director</p> <p>b. Corrective Action Planned</p> <p>The food service director has developed and instituted an adequate internal control system and has purchased a new software program to better insure the integrity of the Child Nutrition Program.</p> <p>c. Anticipated Completion Date</p> <p>The new procedures and software were implemented as of August 3, 2009.</p>
2008-2.	<p>a. Name of Contact Person Responsible for Corrective Action</p> <p>Eileen Dowsing, Federal Programs Director</p> <p>b. Corrective Action Planned</p> <p>The federal programs director will retain written documentation regarding non-public schools participation in federal Title I programs.</p> <p>c. Anticipated Completion Date</p> <p>This documentation is available for the 2009 fiscal year.</p>

Sincerely yours,


Beverly S. Thompson, CPA
Business Manager


Irene Walton
Superintendent

HOLLY SPRINGS SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2008

U.S. DEPARTMENT OF AGRICULTURE

FINDING 2007-1: School Breakfast Program, national School Lunch Program, and Summer Food Service Program for Children.

Condition: This finding was a significant deficiency stating that the school district did not have an adequate segregation of duties among the accounting functions.

Recommendation: The auditor recommended that the school district have a segregation of duties among the accounting functions; however the auditor recognized that the expense of acquiring the additional employees might be prohibitive. To compensate for the lack of segregation of duties, the auditor recommended periodic review of accounting functions by management.

Current Status: Internal control procedures were developed and instituted after the prior year audit. But due to the timing of the prior year audit, errors had already occurred resulting in a similar finding in the 2008 audit.

FINDING 2007-2: School Breakfast Program, national School Lunch Program, and Summer Food Service Program for Children.

Condition: This finding was a significant deficiency stating that there was a lack of management oversight in regards to controls surrounding food costs.

Recommendation: The auditor recommended that management should periodically review accounting functions to compensate for the lack of segregation of duties.

Current Status: The food service director has received additional training that has enhanced his ability to monitor and manage the food service operations. No similar findings were noted in the 2008 audit.