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HOUSTON SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2008

Charles L. Shivers, CPA
Ridgeland, MS

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FINANCIAL AUDIT REPORT

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CHARLES L. SHIVERS

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INDEPENDENT AUDITOR'S REPORT

Superintendent and School Board
Houston School District

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

I conducted my 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 I 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my 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 Houston 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*, I have also issued my report dated March 9, 2009, on my consideration of the Houston School District's internal control over financial reporting and on my 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 my 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 my audit.

The Management's Discussion and Analysis and the Budgetary Comparison Schedule and related notes are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I 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, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Houston 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 my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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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, I express no opinion on it.

Ridgeland, MS
March 9, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

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HOUSTON SCHOOL DISTRICT

WILLIAM STEPHEN COKER, SUPERINTENDENT

MISSISSIPPI

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

The discussion and analysis of Houston School District's financial performance provides an overall narrative review of the school district's financial activities for the year ended June 30, 2008. The intent of this discussion and analysis is to look at the school district's performance as a whole; readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the school district's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

FINANCIAL HIGHLIGHTS

- Total net assets increased $390,019, (including prior period d adjustments) which represents 5.8% increase from fiscal year 2007.
- General revenues account for $12,492,924 in revenue, or 78.3% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for $3,463,402 or 21.7% of total revenues.
- The District had $15,538,829 in expenses; only $3,463,402 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of $12,492,924 were adequate to provide for these programs.
- Among major funds, the General Fund had $12,286,040 in revenues and $11,582,429 in expenditures. The General Fund's fund balance increased $171,493 over the prior year.
- Capital assets, net of accumulated depreciation, decreased by $26,749.
- Long-term debt decreased by $562,729.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

P. O. DRAWER 351 HOUSTON, MISSISSIPPI 38851 TELEPHONE 662-456-3332 FACSIMILE 662-456-5259
The Houston School District does not discriminate on the basis of sex, race, color, handicap, or National Origin – An Equal Opportunity employer.

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

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

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

> **Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's current financing requirements. Governmental funds are reported using modified accrual accounting. This method of accounting measures cash and other assets that can be easily converted to cash. The governmental funds statements provide a detailed short-term view of the school district's operations.
>
> Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.
>
> The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School Districts*. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for all major funds. All other non-major funds are combined together and presented in these reports as other governmental funds.
>
> **Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The school district's fiduciary activities are presented in separate Statement of Net Assets - Fiduciary Funds.

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

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

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

Additionally, a Schedule of Expenditures of Federal Awards is required by OMB Cir. A-133 and a Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds, as required by the Mississippi State Auditor, can be found in this report. Also, this report includes a Statement of Revenues, Expenditures and Changes in Fund Balance, General Fund, Last Four Years and a Statement of Revenues, Expenditures and Changes in Fund Balance, All Governmental Funds, Last Four Years as required by the Mississippi Department of Education.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

District, assets exceeded liabilities by $7,065,325 as of June 30, 2008.

By far the largest portion of the District's net assets (35.6%) reflects its investment in capital assets (e.g., land, buildings, improvements other than buildings, mobile equipment, and furniture and equipment, less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

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

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

	Net Assets		Percentage
	June 30, 2008	June 30, 2007	Change
Current assets	$ 3,359,149	$ 4,930,106	-31.9 %
Restricted assets	1,438,892	0	100.0 %
Non-depreciable assets	198,441	225,919	-12.2 %
Depreciable assets, net	7,675,704	7,674,975	0.0 %
Total assets	12,672,186	12,831,000	-1.2 %
Current liabilities	156,594	142,698	9.7 %
Long-term debt outstanding	5,450,267	6,012,996	-9.4 %
Total liabilities	5,606,861	6,155,694	-8.9 %
Net assets:			
Invested in capital assets, net of related debt	2,514,799	1,962,331	28.2 %
Restricted	1,675,618	943,132	77.7 %
Unrestricted	2,874,908	3,769,843	-23.7 %
Total net assets	$ 7,065,325	$ 6,675,306	5.8 %

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

- The principal retirement of $579,217 of long-term debt.
- The addition of $340,541 in capital assets.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2008 were $15,956,326. The total cost of all programs and services was $15,538,829. The following table presents a summary of the changes in net assets for the fiscal years ending June 30, 2008 and 2007, respectively.

	Change in Net Assets		Percentage
	June 30, 2008	June 30, 2007	Change
Revenues:			
Program revenues:			
Charges for services	$ 619,428	$ 1,145,157	-45.9 %
Operating grants and contributions	2,843,974	1,951,191	45.8 %
Capital grants and contributions	0	20,736	-100.0 %
General revenues:			
Property taxes	2,271,060	2,200,790	3.2 %
Grants and contributions not restricted	10,031,389	9,612,407	4.4 %
Unrestricted investment earnings	190,475	156,092	22.0 %
Other	0	47,407	-100.0 %
Total revenues	15,956,326	15,133,780	5.4 %
Expenses:			
Instruction	9,327,956	8,666,470	7.6 %
Support services	4,944,547	5,169,083	-4.3 %
Non-instructional	1,016,234	1,000,186	1.6 %

Interest and other expense on long-term liabilities	250,092	270,166	-7.4 %
Total expenses	15,538,829	15,105,905	2.9 %
Increase (Decrease) in net assets	417,497	27,875	1,397.7 %
Net Assets, July 1	6,675,306	6,647,431	0.4 %
Prior Period Adjustments	(27,478)	0	-100.0 %
Net Assets, June 30	$ 7,065,325	$ 6,675,306	5.8 %

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

	2008		2007	
	Total Expenses	Net (Expense) Revenue	Total Expenses	Net (Expense) Revenue
Instruction	$ 9,327,956	$ (7,670,829)	$ 8,666,470	$ (7,154,560)
Support services	4,944,547	(4,237,705)	5,169,083	(4,566,910)
Non-instructional	1,016,234	83,199	1,000,186	2,815
Interest and other expenses on long-term liabilities	250,092	(250,092)	270,166	(270,166)
Total expenses	$ 15,538,829	$ (12,075,427)	$ 15,105,905	$ (11,988,821)

- Net cost of governmental activities ($12,075,427), was financed by general revenue, which is made up of primarily property taxes ($2,271,060) and state revenue ($9,902,098).
- Investment earnings accounted for $190,475 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 $4,719,874, a decrease of $154,526. $3,043,615 or 64.5% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of $1,676,259 or 35.5% is reserved to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was $171,493. The fund balance of Other Governmental Funds showed a decrease of $31,287.

BUDGETARY HIGHLIGHTS

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

The amounts from local sources were increased due to an increase in interest earned and an increase in activity funds due to having more fundraisers.

Budgeted amounts from state sources decreased due to an arts grant not being expended in the fiscal year. This is a reimbursable grant, therefore, only funds spent were requested.

Budgeted amounts expended for facilities and construction was decreased due to not making improvements that were budgeted in the Building Funds.

Budgeted amounts for revenue from federal sources and instruction and support services expenditures in the federal funds were amended to reflect decreases in both revenue and expenditures for these funds. The carryover and current year allotments were included as budgeted revenue and expenditures in the original budget but not all funds were spent during the fiscal year, thus the revenue was not requested.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2008, the District's total capital assets were $12,954,744, including land, school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of $313,063 from the previous year. Total accumulated depreciation as of June 30, 2008 was $5,080,599 and total depreciation expense for the year was $339,812, resulting in total net assets of $7,874,145.

	Capital Assets, Net of Depreciation		Percentage
	2008	2007	Change
Land	$ 198,441	$ 198,441	0.0 %
Construction in progress		27,478	-100.0 %
Buildings	6,855,006	6,997,466	-2.0 %
Improvements other than buildings	128,184	135,726	-5.6 %
Mobile equipment	549,013	502,576	9.2 %
Furniture and equipment	143,501	39,207	226.0 %
Total	$ 7,874,145	$ 7,900,894	-0.3 %

Debt Administration. At June 30, 2008, the District had $5,450,267 in general obligation bonds and other long-term debt outstanding, of which $605,907 is due within one year.

	Outstanding Debt		Percentage
	2008	2007	Change
General refunding obligation bonds payable	$ 880,000	$ 1,150,000	-23.5 %
Certificates of participation payable	639,346	698,563	-8.5 %
Three mill notes payable	1,455,000	1,520,000	-4.3 %
Limited obligation bonds payable	2,385,000	2,570,000	-7.2 %
Compensated absences payable	90,921	74,433	22.2 %
Total	$ 5,450,267	$ 6,012,996	-9.4 %

The District maintains an AA- bond rating with Stand and Poors.

CURRENT ISSUES

The Houston 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 accounting controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

Ad valorem taxes have increased .90% over the last fiscal year. Latest enrollment figures indicate that student enrollment has not declined.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Houston School District, P. O. Drawer 351, Houston, MS 38851.

BASIC FINANCIAL STATEMENTS

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Houston School District
Statement of Net Assets
June 30, 2008

Exhibit A

	Governmental Activities
Assets	
Cash and cash equivalents (Note 2)	$ 2,769,283
Due from other governments	$ 531,140
Other receivables, net	$ 25,681
Inventories	$ 33,045
Restricted assets (Note 4)	$ 1,438,892
Non-depreciable capital assets (Note 5)	$ 198,441
Depreciable capital assets, net (Note 5)	$ 7,675,704
Total Assets	$ 12,672,186
Liabilities	
Accounts payable and accrued liabilities	$ 67,655
Unearned revenue	$ 10,512
Interest payable on long-term liabilities	$ 78,427
Long-term liabilities (Due within one year) (Note 6)	
Capital related liabilities	$ 601,361
Non-capital related liabilities	$ 4,546
Long-term liabilities (Due beyond one year) (Note 6)	
Capital related liabilities	$ 4,757,985
Non-capital related liabilities	$ 86,375
Total Liabilities	$ 5,606,861
Net assets	
Investment in capital assets (net of related debt)	$ 2,514,799
Restricted net assets	
Expendable	
School-based activities	$ 110,831
Debt service	$ 283,823
Capital improvements	$ 1,242,759
Unemployment benefits	$ 38,205
Unrestricted	$ 2,874,908
Total Net Assets	$ 7,065,325

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

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

Exhibit B

Functions / Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities
Governmental Activities				
Instruction	$ 9,327,956	$ 309,243	$ 1,347,884	$ (7,670,829)
Support services	$ 4,944,547	$ 48,602	$ 658,240	$ (4,237,705)
Non-instructional	$ 1,016,234	$ 261,583	$ 837,850	$ 83,199
Interest and other expenses on long-term liabilities	$ 250,092			$ (250,092)
Total Governmental Activities	$ 15,538,829	$ 619,428	$ 2,843,974	$ (12,075,427)

General Revenues	
Taxes	
General purpose levies	$ 1,803,236
Debt purpose levies	$ 467,824
Unrestricted grants and contributions	
State	$ 9,902,098
Federal	$ 129,291
Unrestricted investment earnings	$ 190,475
Total General Revenues	$ 12,492,924
Changes in Net Assets	$ 417,497
Net Assets - Beginning	$ 6,675,306
Prior Period Adjustments (Note 8)	$ (27,478)
Net Assets - Beginning - Restated	$ 6,647,828
Net Assets - Ending	$ 7,065,325

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

Houston School District
Balance Sheet - Governmental Funds
June 30, 2008

Exhibit C

	Major Funds					
	General Fund	Title I-A Basic Fund	School Improvement Fund	Building Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents (Note 2)	$ 2,634,204			$ 750,717	$ 324,430	$ 3,709,351
Investments (Note 2)					$ 498,824	$ 498,824
Due from other governments	$ 171,264	$ 75,567	$ 37,545		$ 246,764	$ 531,140
Other receivables, net	$ 25,681					$ 25,681
Due from other funds (Note 3)	$ 188,635					$ 188,635
Inventories	$ -				$ 33,045	$ 33,045
Total Assets	$ 3,019,784	$ 75,567	$ 37,545	$ 750,717	$ 1,103,063	$ 4,986,676
Liabilities and Fund Balances						
Liabilities						
Accounts payable & accrued liabilities	$ 53,955				$ 13,700	$ 67,655
Due to other funds (Note 3)		$ 75,567	$ 37,545		$ 75,523	$ 188,635
Unearned revenue					$ 10,512	$ 10,512
Total Liabilities	$ 53,955	$ 75,567	$ 37,545	$ -	$ 99,735	$ 266,802
Fund Balances						
Reserved for						
Capital project purposes				$ 750,717	$ 492,042	$ 1,242,759
Debt service purposes					$ 362,250	$ 362,250
Unemployment benefits					$ 38,205	$ 38,205
Inventory					$ 33,045	$ 33,045
Unreserved						
Undesignated, reported in						
General fund	$ 2,965,829					$ 2,965,829
Special revenue funds					$ 77,786	$ 77,786
Total Fund Balances	$ 2,965,829	$ -	$ -	$ 750,717	$ 1,003,328	$ 4,719,874
Total Liabilities and Fund Balances	$ 3,019,784	$ 75,567	$ 37,545	$ 750,717	$ 1,103,063	$ 4,986,676

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

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

Exhibit C-1

	Amount
Total fund balance - governmental funds	$ 4,719,874
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets are used in governmental activities and are not financial resources, therefore the assets are not reported in the governmental funds, net of accumulated depreciation of $5,080,599.	$ 7,874,145
Long-term liabilities are not due and payable in the current period, therefore the long-term liabilities are not reported in the governmental funds.	$ (5,450,267)
Accrued interest payable on long-term liabilities is not due and payable in the current period, therefore it is not reported in the governmental funds.	$ (78,427)
Total net assets - governmental activities	$ 7,065,325

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

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

Exhibit D

	Major Funds					
	General Fund	Title I-A Basic Fund	School Improvement Fund	Building Fund	Other Governmental Funds	Total Governmental Funds
Revenues						
Local sources	$ 2,280,923			$ 38,552	$ 761,487	$ 3,080,962
State sources	$ 9,902,098				$ 834,521	$ 10,736,619
Federal sources	$ 103,019	$ 358,339	$ 74,515		$ 1,602,872	$ 2,138,745
Total Revenues	$ 12,286,040	$ 358,339	$ 74,515	$ 38,552	$ 3,198,880	$ 15,956,326
Expenditures						
Instruction	$ 7,546,546	$ 267,849	$ 36,972		$ 1,260,099	$ 9,111,466
Support services	$ 4,019,487	$ 86,316	$ 37,543	$ 361,684	$ 644,496	$ 5,149,526
Noninstructional services					$ 1,011,909	$ 1,011,909
Debt service						
Principal (Note 6)	$ 16,396				$ 562,821	$ 579,217
Interest					$ 254,469	$ 254,469
Other					$ 4,265	$ 4,265
Total Expenditures	$ 11,582,429	$ 354,165	$ 74,515	$ 361,684	$ 3,738,059	$ 16,110,852
Excess (Deficiency) of Revenues Over Expenditures	$ 703,611	$ 4,174	$ -	$ (323,132)	$ (539,179)	$ (154,526)
Other Financing Sources (Uses)						
Operating transfers in (Note 3)	$ 32,619			$ 28,400	$ 564,737	$ 625,756
Operating transfers out (Note 3)	$ (564,737)	$ (4,174)		$ -	$ (56,845)	$ (625,756)
Total Other Financing Sources (Uses)	$ (532,118)	$ (4,174)	$ -	$ 28,400	$ 507,892	$ -
Net Change in Fund Balances	$ 171,493	$ -	$ -	$ (294,732)	$ (31,287)	$ (154,526)
Fund Balances						
July 1, 2007	$ 2,794,336	$ -	$ -	$ 1,045,449	$ 1,034,692	$ 4,874,477
Decrease in reserve for inventory					$ (77)	$ (77)
June 30, 2008	$ 2,965,829	$ -	$ -	$ 750,717	$ 1,003,328	$ 4,719,874

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

Houston 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

Exhibit D-1

		Amount
Net change in fund balance - governmental funds	$	(154,526)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital assets as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchased amounted to $340,541 and the depreciation expense amounted to $339,812.	$	729
Payment on the principal on long-term liabilities is reported as expenditures in the governmental funds, but the payment reduces long-term liabilities in the statement of activities.	$	579,217
Expenses associated with changes in the compensated absences liability is reported in the statement of activities, but is not reported in the governmental funds.	$	(16,488)
Accrued interest payable is reported in the statement of activities, but is not reported in the governmental funds.	$	8,642
The governmental funds reported a decrease in reserve for inventory while the transaction is not reported in the statement of activities.	$	(77)
Changes in net assets of governmental activities	$	417,497

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

Houston School District
Statement of Net Assets - Fiduciary Funds
June 30, 2008

Exhibit E

	Private-Purpose Trust Funds	Agency Funds
Assets		
Cash and cash equivalents (Note 2)	$ 66,662	$ 529,583
Total Assets	$ 66,662	$ 529,583
Liabilities		
Accounts payable and accrued liabilities		$ 509,158
Due to student clubs		$ 20,425
Total Liabilities	$ -	$ 529,583
Net Assets		
Reserved for scholarships	$ 66,662	
Total Net Assets	$ 66,662	

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

Houston School District
Statement of Changes in Fiduciary Net Assets
For the Year Ended June 30, 2008

Exhibit F

	Private-Purpose Trust Funds
Additions	
Interest on investments	$ 3,235
Total Additions	$ 3,235
Deductions	
Scholarships awarded	$ 2,125
Total Deductions	$ 2,125
Changes in Net Assets	$ 1,110
Net Assets	
July 1, 2007	$ 65,552
June 30, 2008	$ 66,662

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

(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 Houston 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, the 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.

Blended component unit.

The Houston School Leasing Authority ("the Authority") as explained in the following paragraph is considered to be a blended component unit as determined by Section 2100 of the *Codification of Governmental Accounting and Financial Reporting Standards* and is included in the district's reporting entity.

The Authority is governed by a five member board which was appointed by the school district's governing board. Although it is legally separate from the school district, it is reported as if it is part of the primary government because its sole purpose is to provide financing for the renovation, improvement, construction, and equipping of certain school facilities. Therefore, all of the Authority's assets, liabilities, equity, revenues, expenditures and other financing sources and uses have been included in the government-wide financial statements of the school district (see Note 10).

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

Fund Financial Statements:

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

The school district reports the following major governmental funds:

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

Title I-A Basic Fund – This special revenue fund is federally funded as is used to account for expenditures associated with educationally deprived children.

School Improvement Fund – This special revenue fund is federally funded as is used to account for expenditures associated with schools that did not meet federal guidelines for yearly improvement.

Building Fund – This capital projects fund is financed with bond proceeds and is used to account for expenditures for improvements to buildings and related facilities

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

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

The District's fiduciary funds include the following:

Payroll Clearing Fund – This fund is used as a clearing account for payroll and payroll related transactions.

Accounts Payable Clearing – This fund is used as a clearing account for non-payroll transactions.

Student Club Accounts – These funds are used to account for the transaction of student clubs.

L. L. Robinson Trust Fund – These funds are used to account for restricted contributions that are used to provide scholarships to students.

E. E. Davis Trust Fund – These funds are used to account for restricted contributions that are used to provide scholarships to students.

Ethel Simpson Trust Fund – These funds are used to account for restricted contributions that are used to provide scholarships to students.

Joe Brigance Scholarship Fund – These funds are used to account for restricted contributions that are used to provide scholarships to students.

Robert P Chase Scholarship Fund – These funds are used to account for restricted contributions that are used to provide scholarships to students.

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.

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

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

FIDUCIARY FUNDS

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

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

C. Measurement Focus and Basis of Accounting.

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting as are the Fiduciary Fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

Ad valorem property taxes are levied by the governing authorities of the county and 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 Revenues are appropriated on a fiscal year basis and are recorded at the time the revenues are received from the State of Mississippi.

D. Account Classifications.

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

E. Encumbrances.

An encumbrance system is maintained to account for commitments resulting from purchase orders, work orders, and contracts during the fiscal year. However, the school district attempts to liquidate all encumbrances at year-end. Encumbrances outstanding at year-end are not 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.

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

5. Restricted Assets.

Certain resources set aside for capital improvements and repayment of debt is classified as restricted assets on the balance sheet because their use is limited by applicable statutes.

6. Capital Assets.

Capital assets, which include property, plant, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost or estimated historical cost based on appraisals or deflated current replacement cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the 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

	Capitalization Policy	Estimated Useful Life
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

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

7. Compensated Absences.

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

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

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

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

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

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

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

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

Reserved for 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.

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

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

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

Deposits. The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the school districts' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

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

Cash and Cash Equivalents.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds, agency funds and private purpose trust funds was $3,709,351, $529,583 and $66,662, respectively. The carrying amount of deposits reported in the government-wide financial statements was $2,769,283. The bank balance was $5,085,455.

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.

Investments.

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

Investment Type	Maturities (in years)	Fair Value	Rating
Money Market Mutual Account	less than 1 year	$ 34,666	A1
Money Market Mutual Account	less than 1 year	$ 464,158	Not Rated

Investment Type	Maturities (in years)	Fair Value	Rating
Total Investments		$ 498,824	

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

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

Custodial Credit Risk – Investments. Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk.

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

(3) Interfund Receivables, Payables and Transfers.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds.

Receivable Fund	Payable Fund		Amount
General Fund	Major Fund – Title I-A Basic	$	75,567
	Major fund – School Improvement	$	37,545
	Other governmental funds	$	75,523
Total		$	188,635

The purpose of the more significant interfund loans was to eliminate deficit cash balances in certain federal programs as part of the normal year end closing adjustments.

B. Interfund Transfers.

Transfer Out	Transfer In		Amount
General Fund	Other governmental funds	$	564,737
Major Fund – Title1-A Basic	General Fund	$	4,174
Other governmental funds	General Fund	$	28,445
Other governmental funds	Major Fund – Building Fund	$	28,400
Total		$	625,756

The transfer out of the General Fund was for the purpose of funding the vocational program in the Other Governmental Funds. The transfer out of the Title I-A Basic Fund was for indirect cost transferred to the General Fund. The transfers out of the Other Governmental Funds were for indirect cost transferred to the General Fund and for Vocational reimbursement to the Building Fund for vocational projects completed from that fund.

(4) Restricted Assets.

The Restricted Assets represent the cash balances and investment balances of the Capital Projects Funds and the Debt Service Funds totaling $940,068 and $498,824, respectively, for a total of $1,438,892. These assets are legally restricted and may not be used for purposes that support the district's programs.

(5) Capital Assets.

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

	Balance 7-1-2007	Additions	Retirements	Adjustments	Balance 6-30-2008
Governmental Activities:					
Non-depreciable capital assets:					
Land	$ 198,441				$ 198,441
Construction in progress	$ 27,478			$ (27,478)	$ 0
Total non-depreciable capital assets	$ 225,919	$ 0	$ 0	$ (27,478)	$ 198,441
Depreciable capital assets:					
Buildings	$ 10,420,936	$ 65,000			$ 10,485,936
Improvements other than buildings	$ 188,506				$ 188,506
Mobile equipment	$ 1,390,365	$ 137,046			$ 1,527,411
Furniture and equipment	$ 415,955	$ 138,495			$ 554,450
Total depreciable capital assets	$ 12,415,762	$ 340,541	$ 0	$ 0	$ 12,756,303
Less accumulated depreciation for:					
Buildings	$ 3,423,470	$ 207,460			$ 3,630,930
Improvements other than buildings	$ 52,780	$ 7,542			$ 60,322
Mobile equipment	$ 887,789	$ 90,609			$ 978,398
Furniture and equipment	$ 376,748	$ 34,201			$ 410,949
Total depreciation	4,740,787	339,812	$ 0	$ 0	5,080,599
Total depreciable capital assets, net	$ 7,674,975	$ 729	$ 0	$ 0	$ 7,675,704
Governmental activities capital assets, net	$ 7,900,894	$ 729	$ 0	$ (27,478)	$ 7,874,145

Depreciation expense was charged to the following governmental functions:

Governmental activities:	Amount
Instruction	$ 216,490
Support services	$ 119,074
Non-instructional	$ 4,248
Total Depreciation Expense	$ 339,812

(6) 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	$ 1,150,000		$ 270,000	$ 880,000	$ 280,000
B. Limited obligation bonds Payable	$ 2,570,000		$ 185,000	$ 2,385,000	$ 195,000

		Balance 7-1-2007	Additions	Reductions	Balance 6-30-2008	Amounts due within one year
C.	Certificates of participation payable	$ 698,563		$ 59,217	$ 639,346	$ 61,361
D.	Three mill notes payable	$ 1,520,000		$ 65,000	$ 1,455,000	$ 65,000
E.	Compensated absences payable	$ 74,433	$ 16,488		$ 90,921	$ 4,546
	Total	$ 6,012,996	$ 16,488	$ 579,217	$ 5,450,267	$ 605,907

The school district has pledged future revenue to repay debt of the district.

The district has pledged state appropriations for EEF School Buildings and Buses in the amount of $68,409. The purpose of the pledge is to repay certificates of participation of the district. The pledge will remain in effect through 2017. The amount of the pledge is the total amounts of funds available to the district for this particular purpose. During the year, the pledged revenues represent 19% of the principal and interest requirements for the debt.

The district has pledged state appropriations for Mississippi Adequate Education Program in the amount of $307,371. The purpose of the pledge is to repay limited obligation bonds of the district. The pledge will remain in effect through 2018. The amount of the pledge is the total amounts of funds available to the district for this particular purpose. During the year, the pledged revenues represent 100% of the principal and interest requirements for the debt.

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
General Obligation Bonds, Series 2002	varies	8-1-02	2-1-11	$ 2,390,000	$ 880,000

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

Year Ending June 30	Principal	Interest	Total
2009	$ 280,000	$ 35,677	$ 315,677
2010	$ 295,000	$ 24,757	$ 319,757
2011	$ 305,000	$ 7,050	$ 312,050
Total	$ 880,000	$ 67,484	$ 947,484

This debt will be retired from the Bond Issue Fund (Debt Service 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 2.6% 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(s)	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Limited Obligation Bonds	4.4-5.875%	3-1-98	3-1-18	$ 3,665,000	$ 2,385,000

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

Year Ending June 30	Principal	Interest	Total
2009	$ 195,000	$ 107,130	$ 302,130
2010	$ 205,000	$ 98,550	$ 303,550
2011	$ 210,000	$ 89,325	$ 299,325
2012	$ 220,000	$ 79,875	$ 299,875
2013	$ 230,000	$ 69,975	$ 299,975
2014 – 2018	$ 1,325,000	$ 184,275	$ 1,509,275
Total	$ 2,385,000	$ 629,130	$ 3,014,130

This debt will be retired from the MAEP Retirement Fund (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 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. Certificates of participation payable.

As more fully explained in Note 10, certificates of participation have been issued by the school district. Certificates of participation currently outstanding are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Certificates of Participation, Series 2005	3.62%	8-15-05	6-1-17	$ 800,000	$ 639,346

Details of the district's June 30, 2008 certificates of participation are as follows:

Year Ending June 30	Principal	Interest	Total
2009	$ 61,361	$ 23,144	$ 84,505
2010	$ 63,582	$ 20,923	$ 84,505
2011	$ 65,884	$ 18,621	$ 84,505
2012	$ 68,269	$ 16,236	$ 84,505
2013	$ 70,740	$ 13,765	$ 84,505
2014 – 2017	$ 309,510	$ 28,508	$ 338,018
Total	$ 639,346	$ 121,197	$ 760,543

This debt will be retired from the General Fund and the EEF Building and Bus Fund (Special Revenue Fund).

The Certificates of Participation are secured, in part, by an irrevocable pledge of certain revenues the district receives from the State of Mississippi pursuant 37-61-33, Miss. Code Ann. (1972).

D. Three mill notes payable.

Debt currently outstanding is as follows:

Description	Interest Rate(s)	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
1. Three Mill Note, 2003A	4.0 - 4.8%	9-1-03	8-1-23	$ 1,300,000	$ 1,200,000
2. Three Mill Note, 2003B	4.4375%	9-1-03	8-1-13	$ 400,000	$ 255,000
Total				$ 1,700,000	$ 1,455,000

Details of the district's June 30, three mill notes payable are as follows:

1. Three mill notes payable – 2003A.

Year Ending June 30	Principal	Interest	Total
2009	$ 25,000	$ 28,983	$ 53,983
2010	$ 30,000	$ 51,969	$ 81,969
2011	$ 30,000	$ 50,731	$ 80,731
2012	$ 30,000	$ 49,494	$ 79,494
2013	$ 30,000	$ 48,256	$ 78,256
2014 – 2018	$ 390,000	$ 188,673	$ 578,673
2019 – 2023	$ 540,000	$ 95,920	$ 635,920
2024	$ 125,000	$ 3,000	$ 128,000
Total	$ 1,200,000	$ 517,026	$ 1,717,026

This debt will be retired from the Three Mill Note Fund (Debt Service Fund).

2. Three mill notes payable – 2003B.

Year Ending June 30	Principal	Interest	Total
2009	$ 40,000	$ 9,775	$ 49,775
2010	$ 40,000	$ 8,025	$ 48,025
2011	$ 40,000	$ 6,275	$ 46,275
2012	$ 45,000	$ 4,500	$ 49,500
2013	$ 45,000	$ 2,700	$ 47,700
2014	$ 45,000	$ 900	$ 45,900
Total	$ 255,000	$ 32,175	$ 287,175

This debt will be retired from the Three Mill Note Fund (Debt Service Fund).

Total three mill notes payable payments for all issues.

Year Ending June 30	Principal	Interest	Total
2009	$ 65,000	$ 38,758	$ 103,758
2010	$ 70,000	$ 59,994	$ 129,994
2011	$ 70,000	$ 57,006	$ 127,006
2012	$ 75,000	$ 53,994	$ 128,994
2013	$ 75,000	$ 50,956	$ 125,956
2014 – 2018	$ 435,000	$ 189,573	$ 624,573
2019 – 2023	$ 540,000	$ 95,920	$ 635,920
2024	$ 125,000	$ 3,000	$ 128,000
Total	$ 1,455,000	$ 549,201	$ 2,004,201

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.

(7) Defined Benefit Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The 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 $1,004,493, $910,238 and $843,814, respectively, which equaled the required contributions for each year.

(8) Prior Period Adjustments/Exhibits.

A summary of significant fund equity adjustments is as follows:

Exhibit B - Statement of Activities

Explanation		Amount
Non-depreciable capital assets – write off of construction in progress	$	(27,478)

(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. 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.

(10) Trust Certificates.

A trust agreement dated August 15, 2005, was executed by and between the school district and First Security Bank, as trustees.

The trust agreement authorized the issuance of trust certificates in the principal amount of $800,000. Approximately $800,000 was used to provide financing for the construction and renovation of school buildings and related facilities and equipment (the "project").

The project is leased to the school district in accordance with the provisions of the Emergency School Leasing Authority Act as described in Section 37-7-351, et seq., Miss. Code Ann. (1972). The lease represents a capital lease under which ownership of the project will transfer to the school district upon complete retirement of the trust certificates. The school district is obligated to make lease payments to the trustee in an amount equal to the debt service requirements for the trust certificates. The lease rental payments by the school district are used by the trustee to pay the principal and interest payments due on the trust certificates.

It is not anticipated the project will have sufficient value to satisfy the certificates in the event the school district defaults under the lease; therefore, the source of payment of the certificates is the responsibility of the school district. See Note 6 for details regarding the debt service requirement on the trust certificates.

Using the guidance provided in Section 2100 of the *Codification of Governmental Accounting and Financial Reporting Standards* dealing with defining the reporting entity, the trust accounts created by this trust agreement were deemed to constitute an inseparable part of the school district. Therefore, the assets, liabilities, equity, revenues, expenditures and other financing sources/uses of the trust accounts created by this trust agreement are part of the school district's financial statements, thereby eliminating the effects of the lease agreement for financial reporting purposes.

REQUIRED SUPPLEMENTARY INFORMATION

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Houston School District
Budgetary Comparison Schedule for the General Fund
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variances Positive (Negative)	
	Original	Final	(GAAP Basis)	Original to Final	Final to Actual
Revenues					
Local sources	$ 2,209,855	$ 2,280,923	$ 2,280,923	$ 71,068	$ -
State sources	$ 10,054,180	$ 9,902,098	$ 9,902,098	$ (152,082)	$ -
Federal sources	$ 84,450	$ 103,019	$ 103,019	$ 18,569	$ -
Total Revenues	$ 12,348,485	$ 12,286,040	$ 12,286,040	$ (62,445)	$ -
Expenditures					
Instruction	$ 7,732,678	$ 7,546,546	$ 7,546,546	$ 186,132	$ -
Support services	$ 4,433,722	$ 4,019,487	$ 4,019,487	$ 414,235	$ -
Debt service					
Principal	$ 16,096	$ 16,396	$ 16,396	$ (300)	$ -
Total Expenditures	$ 12,182,496	$ 11,582,429	$ 11,582,429	$ 600,067	$ -
Excess (Deficiency) of Revenues Over Expenditures	$ 165,989	$ 703,611	$ 703,611	$ 537,622	$ -
Other Financing Sources (Uses)					
Insurance loss recoveries	$ 200	$ -	$ -	$ (200)	$ -
Sale of transportation equipment	$ 200	$ -	$ -	$ (200)	$ -
Operating transfers in	$ 1,400,934	$ 1,379,609	$ 32,619	$ (21,325)	$ (1,346,990)
Operating transfers out	$ (1,907,582)	$ (1,911,727)	$ (564,737)	$ (4,145)	$ 1,346,990
Total Other Financing Sources (Uses)	$ (506,248)	$ (532,118)	$ (532,118)	$ (25,870)	$ -
Net Change in Fund Balances	$ (340,259)	$ 171,493	$ 171,493	$ 511,752	$ -
Fund Balances					
July 1, 2007	$ 2,659,832	$ 2,794,336	$ 2,794,336	$ 134,504	$ -
June 30, 2008	$ 2,319,573	$ 2,965,829	$ 2,965,829	$ 646,256	$ -

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

Houston School District
Budgetary Comparison Schedule for the Major Special Revenue Fund - Title I-A Basic Fund
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variances Positive (Negative)	
	Original	Final	(GAAP Basis)	Original to Final	Final to Actual
Revenues					
Federal sources	$ 414,666	$ 386,783	$ 358,339	$ (27,883)	$ (28,444)
Total Revenues	$ 414,666	$ 386,783	$ 358,339	$ (27,883)	$ (28,444)
Expenditures					
Instruction	$ 246,225	$ 267,849	$ 267,849	$ (21,624)	$ -
Support services	$ 164,443	$ 114,760	$ 86,316	$ 49,683	$ 28,444
Total Expenditures	$ 410,668	$ 382,609	$ 354,165	$ 28,059	$ 28,444
Excess (Deficiency) of Revenues Over Expenditures	$ 3,998	$ 4,174	$ 4,174	$ 176	$ -
Other Financing Sources (Uses)					
Operating transfers out	$ (3,998)	$ (4,174)	$ (4,174)	$ (176)	$ -
Total Other Financing Sources (Uses)	$ (3,998)	$ (4,174)	$ (4,174)	$ (176)	$ -
Net Change in Fund Balances	$ -	$ -	$ -	$ -	$ -
Fund Balances					
July 1, 2007	$ -	$ -	$ -	$ -	$ -
June 30, 2008	$ -	$ -	$ -	$ -	$ -

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

Houston School District
Budgetary Comparison Schedule for the Major Special Revenue Fund - School Improvement Fund
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variances Positive (Negative)	
	Original	Final	(GAAP Basis)	Original to Final	Final to Actual
Revenues					
Federal sources	$ 91,769	$ 46,071	$ 74,515	$ (45,698)	$ 28,444
Total Revenues	$ 91,769	$ 46,071	$ 74,515	$ (45,698)	$ 28,444
Expenditures					
Instruction	$ 91,769	$ 36,972	$ 36,972	$ 54,797	$ -
Support services	$ -	$ 9,099	$ 37,543	$ (9,099)	$ (28,444)
Total Expenditures	$ 91,769	$ 46,071	$ 74,515	$ 45,698	$ (28,444)
Excess (Deficiency) of Revenues Over Expenditures	$ -	$ -	$ -	$ -	$ -
Total Other Financing Sources (Uses)	$ -	$ -	$ -	$ -	$ -
Net Change in Fund Balances	$ -	$ -	$ -	$ -	$ -
Fund Balances					
July 1, 2007	$ -	$ -	$ -	$ -	$ -
June 30, 2008	$ -	$ -	$ -	$ -	$ -

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

(1) Basis of Presentation.

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

(2) Budget Amendments and Revisions.

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

SUPPLEMENTARY INFORMATION

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Houston School District
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance No.	Federal Expenditures
U.S. Department of Agriculture		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	$ 338,022
National school lunch program	10.555	$ 789,852
Total child nutrition cluster		$ 1,127,874
Total U.S. Department of Agriculture		$ 1,127,874
U.S. Department of Labor		
Passed-through Mississippi Development Authority		
Workforce Investment Act - Youth Activities	17.259	$ 26,273
Total U.S. Department of Labor		$ 26,273
Federal Communications Commission		
Administered through the Universal Service Administrative Company:		
The school and libraries program of the universal service fund	32.XXX	$ 27,085
Total Federal Communications Commission		$ 27,085
U.S. Department of Education		
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	$ 432,855
Career and technical education - basic grants to states	84.048	$ 29,869
Safe and drug-free schools and communities - state grants	84.186	$ 5,543
Twenty first century community learning centers	84.287	$ 127,114
State grants for innovative programs	84.298	$ 3,076
Education technology - state grants	84.318	$ 314
Rural education	84.358	$ 33,887
English language acquisition grants	84.365	$ 16,283
Improving teacher quality – state grants	84.367	$ 133,587
Grants for state assessments and related activities	84.369	$ 11,914
Total		$ 794,442
Special education cluster:		
Special education - grants to states	84.027	$ 392,769
Special education - preschool grants	84.173	$ 4,592
Total		$ 397,361
Total passed-through Mississippi Department of Education		$ 1,191,803
Total U.S. Department of Education		$ 1,191,803
Total for All Federal Awards		$ 2,373,035

Houston School District
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

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 basic financial statements.
2. The expenditure amounts include transfers out.
3. The pass-through entities did not assign identifying numbers to the school district.

Houston 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 Administrative	School Administration	Other
Salaries and fringe benefits	$ 11,577,476	$ 8,808,150	$ 664,779	$ 791,978	$ 1,312,569
Other	$ 4,533,376	$ 1,409,588	$ 164,293	$ 27,885	$ 2,931,610
Total	$ 16,110,852	$ 10,217,738	$ 829,072	$ 819,863	$ 4,244,179
Total number of students	1,928				
Cost per student	$ 8,356	$ 5,300	$ 430	$ 425	$ 2,201

Notes to the schedule.

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.

General Administration - includes expenditures for the following functions: Support Services - General Administration and Support Services - Business.

School Administration - includes expenditures for the following function: Support Services - School Administration.

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

Total number of students - the ADA report submission for month 9, which is the final submission for the school year.

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OTHER SUPPLEMENTARY INFORMATION

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

UNAUDITED

	2008	2007*	2006*	2005*
Revenues				
Local sources	$ 2,280,923	$ 2,171,563	$ 2,129,927	$ 2,049,478
State sources	$ 9,902,098	$ 9,333,937	$ 8,768,867	$ 8,271,698
Federal sources	$ 103,019	$ 161,762	$ 150,794	$ 95,861
Total Revenues	$ 12,286,040	$ 11,667,262	$ 11,049,588	$ 10,417,037
Expenditures				
Instruction	$ 7,546,546	$ 7,031,001	$ 6,636,190	$ 6,342,627
Support services	$ 4,019,487	$ 3,762,182	$ 3,686,327	$ 3,283,528
Debt service				
Principal	$ 16,396	$ 19,450	$ 7,807	$ 7,478
Interest	$ -	$ 87	$ 435	$ 764
Total Expenditures	$ 11,582,429	$ 10,812,720	$ 10,330,759	$ 9,634,397
Excess (Deficiency) of Revenues Over Expenditures	$ 703,611	$ 854,542	$ 718,829	$ 782,640
Other Financing Sources (Uses)				
Operating transfers in	$ 32,619	$ 48,331	$ 35,030	$ 48,457
Operating transfers out	$ (564,737)	$ (539,170)	$ (531,273)	$ (526,186)
Total Other Financing Sources (Uses)	$ (532,118)	$ (490,839)	$ (496,243)	$ (477,729)
Net Change in Fund Balances	$ 171,493	$ 363,703	$ 222,586	$ 304,911
Fund Balances				
July 1	$ 2,794,336	$ 2,430,633	$ 2,208,047	$ 1,903,136
June 30	$ 2,965,829	$ 2,794,336	$ 2,430,633	$ 2,208,047

* Source - prior year audit reports.

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

UNAUDITED

	2008	2007*	2006*	2005*
Revenues				
Local sources	$ 3,080,962	$ 2,946,615	$ 2,935,564	$ 2,765,499
State sources	$ 10,736,619	$ 10,020,652	$ 9,468,574	$ 8,941,508
Federal sources	$ 2,138,745	$ 2,166,513	$ 2,114,516	$ 2,140,670
Total Revenues	$ 15,956,326	$ 15,133,780	$ 14,518,654	$ 13,847,677
Expenditures				
Instruction	$ 9,111,466	$ 8,453,037	$ 8,109,136	$ 7,896,805
Support services	$ 5,149,526	$ 5,079,167	$ 4,424,289	$ 3,942,866
Noninstructional services	$ 1,011,909	$ 997,998	$ 920,782	$ 875,666
Facilities acquisition and construction	$ -	$ -	$ 27,478	$ -
Debt service				
Principal	$ 579,217	$ 556,182	$ 527,096	$ 528,645
Interest	$ 254,469	$ 278,765	$ 295,357	$ 324,433
Other	$ 4,265	$ 4,352	$ 4,284	$ 4,053
Total Expenditures	$ 16,110,852	$ 15,369,501	$ 14,308,422	$ 13,572,468
Excess (Deficiency) of Revenues Over Expenditures	$ (154,526)	$ (235,721)	$ 210,232	$ 275,209
Other Financing Sources (Uses)				
Proceeds of loans	$ -	$ -	$ 800,000	$ -
Operating transfers in	$ 625,756	$ 624,210	$ 577,612	$ 633,368
Other financing sources	$ -	$ -	$ -	$ -
Operating transfers out	$ (625,756)	$ (624,210)	$ (577,612)	$ (633,368)
Other financing uses	$ -	$ -	$ -	$ (676)
Total Other Financing Sources (Uses)	$ -	$ -	$ 800,000	$ (676)
Net Change in Fund Balances	$ (154,526)	$ (235,721)	$ 1,010,232	$ 274,533
Fund Balances				
July 1	$ 4,874,477	$ 5,107,144	$ 4,088,073	$ 3,809,915
Prior period adjustments	$ -	$ -	$ -	$ 2,238
July 1, as restated	$ 4,874,477	$ 5,107,144	$ 4,088,073	$ 3,812,153
Increase (Decrease) in reserve for inventory	$ (77)	$ 3,054	$ 8,839	$ 1,387
June 30	$ 4,719,874	$ 4,874,477	$ 5,107,144	$ 4,088,073

* Source - prior year audit reports.

REPORTS ON INTERNAL CONTROLS AND COMPLIANCE

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

Superintendent and School Board
Houston School District

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Houston School District as of and for the year ended June 30, 2008, which collectively comprise the district's basic financial statements and have issued my report thereon dated March 9, 2009. I conducted my 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 my audit, I considered the school district's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the school district's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the school district's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is control deficiency, or combination of control deficiencies, that adversely affects the school district'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 school district's financial statements that is more than inconsequential will not be prevented or detected by the school district's internal control. I consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting. See Findings 2008-01, 2008-02, 2008-03, 2008-04, 2008-05, 2008-06, 2008-07 and 2008-08.

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.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant

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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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The school district's response to the findings identified in my audit is described in the accompanying Schedule of Findings and Questioned Costs. I did not audit the school district's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of the district's 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.

Ridgeland, MS
March 9, 2009

CHARLES L. SHIVERS

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

Superintendent and School Board
Houston School District

Compliance

I have audited the compliance of the Houston 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 district's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the school district's management. My responsibility is to express an opinion on the school district's compliance based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the school district's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the school district's compliance with those requirements.

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

Internal Control Over Compliance

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

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

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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.

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

This report is intended solely for the information and use of the district's 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.

Ridgeland, MS
March 9, 2009

REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

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REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Superintendent and School Board
Houston School District

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Houston School District as of and for the year ended June 30, 2008, which collectively comprise Houston School District's basic financial statements and have issued my report thereon dated March 9, 2009. I conducted my 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."

The results of my 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. However, providing an opinion on compliance with these requirements was not an objective of my audit and, accordingly, I do not express such an opinion. The district reported $1,396 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 my 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. However, providing an opinion on compliance with these requirements was not an objective of my audit and, accordingly, I do not express such an opinion.

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

The results of procedures performed to test compliance with certain other state laws and regulations as required by the state legal compliance audit program prescribed by the Office of the Mississippi State Auditor and my 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.

Ridgeland, MS
March 9, 2009

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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Houston School District
Schedule of Findings and Questioned Costs
June 30, 3008

Section 1: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

4.	Type of auditor's report issued on compliance for major federal programs:	Unqualified
5.	Internal control over major programs:	
	a. Material weaknesses identified?	No
	b. Significant deficiency identified that are not considered to be material weaknesses?	None Reported
6.	Any audit finding(s) reported as required by section ___.510(a) of Circular A-133?	No
7.	Federal program identified as major program:	

a. Child Nutrition Cluster
   CFDA #: 10.553
   CFDA #: 10.555
b. Title I grants to Local Educational Agencies
   CFDA #: 84.010

8.	The dollar threshold used to distinguish between type A and type B programs:	$300,000
9.	Auditee qualified as a low-risk auditee?	No
10	Prior fiscal year audit findings and questioned costs relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____.315(b) of OMB Circular A-133?	No

Section 2: Financial Statement Findings

Significant deficiencies identified that are not considered to be material weaknesses.

2008-01

CONDITION: The business manager prepares receipts for funds received, prepares deposit slips (when applicable), codes the transaction and performs data entry into the accounting system.
CRITERIA: A well designed system of accounting controls would be such that no one person is charged with all the duties indicated above.
CAUSE OF CONDITION: The cause of the condition is the result of a limited staff with adequate knowledge to perform the procedure.
EFFECT OF CONDITION: The effect of the condition could lead to errors resulting in misstatement to the financial statements that could go undetected or not be detected within a timely manner.
RECOMMENDATION: It is recommended that the district consider segregating these duties to the greatest extent possible.

2008-02

CONDITION: The high school bookkeeper prepares receipts for funds received, prepares deposit slips, makes the bank deposit, codes the transaction and performs data entry into the accounting system.
CRITERIA: A well designed system of accounting controls would be such that no one person is charged with all the duties indicated above.
CAUSE OF CONDITION: The cause of the condition is the result of a limited staff with adequate knowledge to perform the procedure.
EFFECT OF CONDITION: The effect of the condition could lead to errors resulting in misstatement to the financial statements that could go undetected or not be detected within a timely manner.
RECOMMENDATION: It is recommended that the district consider segregating these duties to the greatest extent possible.

2008-03

CONDITION: Items purchased for maintenance and transportation are acquired without a purchase order being approved by the purchase agent prior to the acquisition. The purchase order is completed prior to data entry into the system for payment of the invoice. There were two instances noted where invoices for goods and services were paid without acknowledgement of the goods or service being received by the district.
CRITERIA: A well designed system of accounting controls would be such that a purchase order is properly completed prior to the order of goods or services. Also, the system should be such that invoices would be paid only after acknowledgement that the good or service had been received by the district.
CAUSE OF CONDITION: The cause of the condition is an inadequate design in the system of accounting controls for the purchase of goods and services for maintenance and transportation.
EFFECT OF CONDITION: The effect of this condition could result in unnecessary or unneeded items being acquired or items being acquired when budgeted funds are not available. The payment for goods or services without acknowledgement of the receipt of those goods or services could result in the payment of invoices when no goods or services were received by the district.
RECOMMENDATION: It is recommended that purchase orders be completed and signed by the purchase agent prior to the order being placed for the goods or services. In addition, payment of invoices should only be made after acknowledgement of the receipt of the goods or services.

2008-04

CONDITION: Blank checks were not properly secured.
CRITERIA: A well designed system of accounting controls would have blank checks stored in a secured (locked) location with access only available to limited personnel.
CAUSE OF CONDITION: The cause of this condition is the result of an inadequately designed system of accounting controls
EFFECT OF CONDITION: This condition could result in unaccounted for checks or stolen checks with the possibility of intentional misuse and the condition not being detected by school management in a timely manner.
RECOMMENDATION: It is recommended that blank checks be kept in a secure and locked place with documented sign in / out procedures.

2008-05

CONDITION: In the test of activity fund expenditures at the high school, two invoices were paid without acknowledgement of the goods or services being received. One invoice was paid without the proper extensions or total cost for services on the invoice.
CRITERIA: A well designed and implemented system of accounting controls would require that documentation of acknowledgement of the receipt of goods or services be present prior to payment of the invoice. In addition, vendor invoices should be properly completed by the vendor before being processed for payment.
CAUSE OF CONDITION: The cause of the condition is a matter of controls not being carried out as the system is designed.
EFFECT OF CONDITION: The effect of this condition could lead to invoices being paid without having received the goods or services from the vendor. The other matter could lead to improper amounts being paid to vendors.

RECOMMENDATION: It is recommended that activity fund invoices be paid only after having been properly completed by the vendor and only after the goods or services have been documented as being received.

2008-06

CONDITION: Manual checks, which are used on a limited basis, require only the signature of the business manager.
CRITERIA: A well designed system of accounting controls would be such that manual checks require two signatures.
CAUSE OF CONDITION: The cause of the conditions is an inadequately designed system of accounting controls.
EFFECT OF CONDITION: The condition could result in expenditures being made that are not authorized by management.
RECOMMENDATION: It is recommended that manual checks be signed by both the superintendent and the business manager.

2008-07

CONDITION: The business manager prepares, approves, enters and reviews all general journal entries.
CRITERIA: Good accounting controls would have these duties segregated to the greatest extent possible.
CAUSE OF CONDITION: The cause of this condition is due to a limited number of business office personnel.
EFFECT OF CONDITION: This condition could lead to errors in preparing and / or entering general journal entries.
RECOMMENDATION: Due to the limited number of business office personnel, there is no recommendation to address this condition.

Section 3: Federal Award Findings and Questioned Costs

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

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AUDITEE'S CORRECTIVE ACTION PLAN

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HOUSTON SCHOOL DISTRICT

WILLIAM STEPHEN COKER, SUPERINTENDENT

MISSISSIPPI

Home of SUNDANCER *International Solar Car Racing Champion*

March 9, 2009

Mr. Charles L. Shivers
P. O. Box 2775
Ridgeland, MS 39158-2775

Re: Corrective Action Plan – Audit Findings FY 2008

Dear Mr. Shivers:

As required by Section 315(c) of OMB Circular A-133, the Houston 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.

Finding

2008-1

Corrective Action Plan

a. Contact person responsible for corrective action – Ronja S. Lancaster

b. Description of corrective action to be taken – The district will segregate the duties of receipting of revenues, depositing such revenues, coding and entering the data into the accounting system to the greatest extent possible. The district has limited staff with adequate knowledge to perform these duties.

c. Anticipated completion date of corrective action – Immediately

P. O. DRAWER 351 HOUSTON, MISSISSIPPI 38851 TELEPHONE 662-456-3332 FACSIMILE 662-456-5259

The Houston School District does not discriminate on the basis of sex, race, color, handicap, or National Origin – An Equal Opportunity employer.

Finding

2008-2

Corrective Action Plan

a. Contact person responsible for corrective action – Ronja S. Lancaster

b. Description of corrective action to be taken – The district will segregate the duties of receipting of revenues, depositing such revenues, coding and entering the data into the accounting system to the greatest extent possible. The district has limited staff with adequate knowledge to perform these duties.

c. Anticipated completion date of corrective action – Immediately

Finding

2008-3

Corrective Action Plan

a. Contact person responsible for corrective action – Ronja S. Lancaster

b. Description of corrective action to be taken - Management will ensure that purchase orders are prepared and authorized before purchases are made. Invoices and/or packing slips will be signed and dated as being received by employees responsible for such goods before being processed for payment.

c. Anticipated completion date of corrective action – Immediately

Finding

2008-4

Corrective Action Plan

a. Contact person responsible for corrective action – Ronja S. Lancaster

b. Description of corrective action to be taken - Management will ensure that blank checks are kept in a locked cabinet and documentation will be kept for signing in and out for such blank checks.

c. Anticipated completion date of corrective action – Immediately

Finding

2008-5

Corrective Action Plan

a. Contact person responsible for corrective action – Ronja S. Lancaster

b. Description of corrective action to be taken – Management will ensure that invoices and/or packing slips are signed and dated as being received by employees responsible for such goods before being processed for payment. Invoices will be checked more closely for complete information from the vendor concerning goods or services received.

c. Anticipated completion date of corrective action – Immediately

Finding

2008-6

Corrective Action Plan

a. Contact person responsible for corrective action – Ronja S. Lancaster

b. Description of corrective action to be taken – Management will require that all manual checks have two signatures. All manual checks will be signed by the superintendent and business manager.

c. Anticipated completion date of corrective action – Immediately

Finding

2008-7

Corrective Action Plan

a. Contact person responsible for corrective action – Ronja S. Lancaster

b. Description of corrective action to be taken – Due to the limited staff in the business office, it will not be possible to segregate these duties to satisfy this finding.

c. Anticipated completion date of corrective action – N/A

If I can assist you further concerning these matters, please contact me.

Sincerely,

Dr. Steve Coker
Superintendent