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HARRISON COUNTY SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2011

HARRISON COUNTY SCHOOL DISTRICT
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INDEPENDENT AUDITOR'S REPORT

WRIGHT, WARD, HATTEN & GUEL

PROFESSIONAL LIMITED LIABILITY COMPANY

(SUCCESSORS TO A. L. EVANS & COMPANY ESTABLISHED 1929)

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INDEPENDENT AUDITOR'S REPORT

January 6, 2012

Superintendent and School Board
Harrison County School District

We have audited the accompanying financial statements of the governmental activities each major fund, and the aggregate remaining fund information of the Harrison County School District as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Harrison County School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. 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. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Harrison County School District, as of June 30, 2011, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

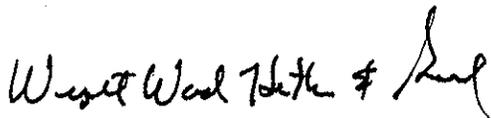
In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2012, on our consideration of the Harrison County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. We do not express an opinion or provide any assurance on the

information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 11 and 45 through 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Harrison County School District's financial statements as a whole. 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*; the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds is presented for additional analysis but is not required by Circular A-133 and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Harrison County School District's basic financial statements. The other information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances – General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances – All Governmental Funds, Last Four Years, is presented for purposes of additional analysis as required by the Mississippi Department of Education and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



Wright, Ward, Hatten & Guel, PLLC
Gulfport, Mississippi

MANAGEMENT'S DISCUSSION AND ANALYSIS

HARRISON COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2011

The discussion and analysis of Harrison County School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2011. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this District's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the District's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

FINANCIAL HIGHLIGHTS

- Total net assets for 2011 increased \$14,767,218, which represents a 13.5% increase from fiscal year 2010 as a result primarily from Small Community Disaster loan monies received, Qualified school construction bonds issued, and an increase in federal funding.
- General revenues amounted to \$98,908,623 and \$83,236,331, or 81% and 77% of all revenues for fiscal years 2011 and 2010, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$23,566,689 or 19% of total revenues for 2011, and \$24,857,442, or 23% of total revenues for 2010.
- The District had \$107,708,094 and \$107,627,017 in expenses for fiscal years 2011 and 2010; only \$23,566,689 for 2011 and \$24,857,442 for 2010 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$98,908,623 for 2011 and \$83,236,331 for 2010 were adequate to provide for these programs.
- Among major funds, the General Fund had \$80,002,566 in revenues and \$72,877,223 in expenditures for 2011, and \$75,002,004 in revenues and \$74,790,794 in expenditures in 2010. The General Fund's fund balance increased by \$6,680,864 from 2010 to 2011, and increased by \$2,070,688 from 2009 to 2010.
- Capital assets, net of accumulated depreciation, decreased by \$1,656,213 for 2011 and decreased by \$2,088,281 for 2010 as a result of the disposal and acquisition of school buses within the District coupled with the increase in accumulated depreciation.
- Long-term debt decreased by \$1,321,261 for 2011, and increased by \$187,784 for 2010. The decrease was due to the principal payments on outstanding long-term debt in conjunction with the issuance of \$3 million of qualified school construction bonds. In addition, the liability for compensated absences decreased by \$27,600 for 2011 and increased by \$319,699 for 2010.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

HARRISON COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2011

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances. These statements consist of the Statement of Net Assets and the Statement of Activities, which are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

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

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. The governmental fund's balance sheet is reconciled to the statement of net assets, and the governmental fund's statement of revenues, expenditures, and changes in fund balances is reconciled to the statement of activities 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*.

HARRISON COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2011

Information is presented separately in the governmental fund's balance sheet and in the governmental fund's statement of revenues, expenditures, and changes in fund balances for all major funds. All other non-major funds are combined 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.

Reconciliation of Government-wide and Fund Financial Statements. The financial statements include two schedules that reconcile the amounts reported on the governmental funds financial statements (modified accrual basis of accounting) with government-wide financial statements (accrual basis of accounting). The following summarized the major differences between the two statements:

Capital assets used in governmental activities are not reported on the governmental funds financial statements.

Capital outlay spending results in capital assets on government-wide financial statements, but is reported as expenditures on the governmental funds financial statements.

Bond and note proceeds result in liabilities on government-wide financial statements, but are recorded as other financing sources on the governmental funds financial statements.

Certain other outflows represent either increases or decreases in liabilities on the government-wide financial statements, but are reported as expenditures on the governmental funds financial statements.

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

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

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

Additionally, a Schedule of Expenditures of Federal Awards as required by OMB Circular A-133 and a Schedule of Instructional, Administrative and Other Expenditures for governmental funds can be found in this report.

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

HARRISON COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2011

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$124,147,418 as of June 30, 2011.

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

Table 1 presents a summary of the District's net assets at June 30, 2011 and June 30, 2010.

Table 1
Condensed Statement of Net Assets

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Percentage Change</u>
Assets			
Current assets	\$ 37,674,114	\$ 28,188,697	33.65%
Capital assets, net	133,210,338	134,866,551	-1.23%
Restricted assets	<u>5,914,089</u>	<u>4,768,575</u>	24.02%
Total assets	<u>176,798,541</u>	<u>167,823,823</u>	5.35%
Liabilities			
Current liabilities	4,471,600	5,573,810	-19.77%
Long-term liabilities	<u>48,179,523</u>	<u>52,869,813</u>	-8.87%
Total liabilities	<u>52,651,123</u>	<u>58,443,623</u>	-9.91%
Net Assets			
Invested in capital assets, net of related debt	85,462,463	89,359,538	-4.36%
Restricted	30,415,852	12,929,424	135.24%
Unrestricted	<u>8,269,103</u>	<u>7,091,238</u>	16.61%
Total net assets	<u>\$ 124,147,418</u>	<u>\$ 109,380,200</u>	13.50%

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

- Decrease in capital assets in the amount of \$1,656,213 mostly due to current year depreciation expense of \$4,714,011 exceeding capital additions.
- Current liabilities decreased by \$1,102,210 mainly as a result of a majority of capital projects in progress were completed in 2010 but not paid at year end were completed.

HARRISON COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2011

- Long-term liabilities decreased by \$1,321,261 due to principal payments made on outstanding debt in the amount of \$4,321,261 and the issuance of \$3,000,000 of Qualified Construction Bonds.

Changes in net assets. The District's total revenues for the fiscal years ended June 30, 2011 and June 30, 2010 were \$122,475,312 and \$108,093,773 respectively. The total cost of all programs and services was \$107,708,094 for 2011 and \$107,627,017 for 2010. Table 2 presents a summary of the changes in net assets for the fiscal years ended June 30, 2011 and June 30, 2010.

Table 2
Change in Net Assets

	Year Ended June 30, 2011	Year Ended June 30, 2010	Percentage Change
Revenues			
Program revenues			
Charges for services	\$ 2,462,109	\$ 3,007,306	-18.13%
Operating grants and contributions	20,495,264	21,850,136	-6.20%
Capital grants and contributions	609,316	-	N/A
General revenues			
Property and gaming taxes	36,067,006	30,643,798	17.70%
Unrestricted grants and contributions	52,685,323	50,141,313	5.07%
Investment earnings	353,267	258,866	36.47%
Sixteenth section sources	2,408,468	2,079,940	15.80%
Other	<u>242,457</u>	<u>112,414</u>	115.68%
Total revenues	<u>115,323,210</u>	<u>108,093,773</u>	13.30%
Expenses			
Instruction	62,935,836	62,717,246	0.35%
Support services	35,347,616	35,401,205	-0.15%
Non-instructional	6,870,684	6,725,570	2.16%
Sixteenth section	660,090	718,140	-8.08%
Interest on long-term debt	<u>1,893,868</u>	<u>2,064,856</u>	-8.28%
Total expenses	<u>107,708,094</u>	<u>107,627,017</u>	0.08%
Increase in net assets before special item	7,615,116	466,756	3063.80%
Special item	<u>7,152,102</u>	-	N/A
Increase in net asset	<u>14,767,218</u>	<u>466,756</u>	
Net Assets, July 1	<u>109,380,200</u>	<u>108,913,444</u>	0.43%
Net Assets, June 30	<u>\$ 124,147,418</u>	<u>\$ 109,380,200</u>	13.50%

HARRISON COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2011

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

- Property taxes increased about \$5.5 million and state appropriations increased by about \$1.5 million. The district received over \$7 million from the Small Community Disaster loan program which was forgiven during FY 2011.
- Expenditures remained constant throughout FY 2011 as a result of cost cutting and strong budget control.

Governmental activities. Table 3 presents the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section and interest on long-term debt. The table also shows each functional activity's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost presents the financial burden that was placed on the State and District's taxpayers by each of these functions.

Table 3
Net Cost of Governmental Activities

	Total Expenses		Percentage Change
	June 30, 2011	June 30, 2010	
Instruction	\$ 62,935,836	\$ 62,717,246	0.35%
Support services	35,347,616	35,401,205	-0.15%
Non-instructional	6,870,684	6,725,570	2.16%
Sixteenth section	660,090	718,140	-8.08%
Interest on long-term debt	<u>1,893,868</u>	<u>2,064,856</u>	-8.28%
Total expenses	<u>\$ 107,708,094</u>	<u>\$ 107,627,017</u>	0.08%

	Net (Expense) Revenue		Percentage Change
	June 30, 2011	June 30, 2010	
Instruction	\$ (52,576,593)	\$ (50,027,375)	5.10%
Support services	(30,188,265)	(30,174,199)	0.05%
Non-instructional	1,123,676	56,528	1887.82%
Sixteenth section	(606,355)	(656,879)	0.76%
Interest on long-term debt	<u>(1,893,868)</u>	<u>(1,967,650)</u>	-3.75%
Total expenses	<u>\$ (84,141,405)</u>	<u>\$ (82,769,575)</u>	1.66%

HARRISON COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2011

- Net cost of governmental activities, (\$84,141,405 for 2011 and \$82,769,575 for 2010) was financed by general revenue, which is made up of primarily property taxes of (\$36,067,006 for 2011 and \$30,643,798 for 2010) and state and federal revenues of (\$52,685,323 for 2011 and \$50,141,313 for 2010). In addition, there was \$2,408,468 and \$2,079,940 in Sixteenth Section sources for 2011 and 2010, respectively.
- Investment earnings amounted to \$353,267 for 2011 and \$258,866 for 2010.

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, unassigned 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 \$42,961,829, an increase of \$15,068,001, which includes an increase in reserve for inventory of \$29,836. The increase is due primarily to new debt issuances for renovations and the forgiveness of the Small Community Disaster loan. The amount of \$12,023,118 or 28% of the fund balance is unassigned, which represents the residual classification for the general fund's fund balance that has not been restricted, committed, or assigned to specific purposes within the general fund. The remaining fund balance of \$30,938,711 or 72% is either nonspendable, restricted, committed or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted, committed or assigned due to the changes of GASB 54.

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 \$6,680,864. The fund balance of Other Governmental Funds showed an increase in the amount of \$1,047,184 which includes an increase in reserve for inventory of \$29,836, due primarily to an increase in grants and contributions from federal and state sources.

The Special Note Fund, which is comprised of unrestricted interest earnings transferred from the 16th Section Principal fund, incurred an increase of \$7,339,953 in the fund balance for 2011 as a result of transfers in of interest income and the transfer in of the Small Community Disaster loan forgiveness proceeds.

BUDGETARY HIGHLIGHTS

During the year the District revised the annual operating budget. Budget revisions were made to address and correct the original budgets to reflect more accurately the sources and uses of funding for the School District.

The major budget revisions were made to reflect an increase in revenue from the Small Community Disaster loan forgiveness as well as the transfers of certain federal revenues and related expenditures from the General fund to other funds.

HARRISON COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2011

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2011, the District's total capital assets were \$179,241,861, including land, school buildings, building improvements, improvements other than buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$2,185,176 from the previous year. Total accumulated depreciation as of June 30, 2011, was \$46,031,523, and total depreciation expense for the year was \$4,714,011. The District disposed of assets with a book value of \$26,180 resulting in total net capital assets at the end of the year of \$133,210,338.

Table 4
Capital Assets, Net of Depreciation

	Capital Assets, Net of Depreciation		Percentage Change
	June 30, 2011	June 30, 2010	
Land	\$ 2,944,254	\$ 2,818,343	4.47%
Construction in progress	1,395,323	104,954	1229.46%
Buildings	111,616,379	114,541,082	-2.55%
Building improvements	4,451,190	4,706,590	-5.43%
Improvements other than buildings	6,534,625	6,819,802	-4.18%
Mobile equipment	4,818,007	4,038,253	19.31%
Furniture and equipment	924,967	1,251,658	-26.10%
Leased property under capital leases	<u>525,593</u>	<u>585,869</u>	-10.29%
Total	<u>\$ 133,210,338</u>	<u>\$ 134,866,551</u>	-1.23%

The large increase in construction in progress is a result of substantial completion of the cafeteria remodel at Orange Grove Elementary school. This construction started in FY 2010.

Additional information on the District's capital assets can be found in Note (5) included in this report.

Debt Administration. At June 30, 2011, the District had \$50,576,341 in outstanding long-term liabilities excluding compensated absences, of which \$3,690,678 is due within one year.

During the year the school district issued \$3,000,000 of qualified school construction bonds that will not mature until 2020. The investors receive tax credits that allow school districts to borrow interest free. The district makes annual payments that will be invested each year to be used to pay off the entire debt at maturity.

HARRISON COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2011

The following table shows outstanding debt for fiscal year 2011 compared to fiscal year 2010:

Table 5
Outstanding Long-Term Debt

	Outstanding Long-term Debt as of		Percentage Change
	June 30, 2011	June 30, 2010	
General obligation bonds	\$ 9,200,000	\$ 10,470,000	-12.13%
Limited obligation bonds	11,065,000	12,165,000	-9.04%
Three mill notes	16,780,000	17,455,000	-3.87%
Shortfall notes	-	295,506	-100.00%
Obligations under capital leases	308,875	412,558	-25.13%
Obligations under energy efficiency lease	2,479,217	2,750,289	-9.86%
Qualified zone academy bonds	4,394,000	5,000,000	-12.12%
Qualified school construction bonds	6,000,000	3,000,000	100.00%
Compensated absences	<u>1,293,860</u>	<u>1,321,460</u>	-2.09%
Sub-total	51,520,952	52,869,813	-2.55%
Add: Deferred charges	<u>349,249</u>	<u>346,319</u>	0.85%
Total	<u>\$ 51,870,201</u>	<u>\$ 53,216,132</u>	-2.53%

Additional information on the District's long-term debt can be found in Note (6) included in this report.

CURRENT ISSUES

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

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

The District actively pursues grant funding to supplement the local, state and federal revenues.

Enrollment for the 2010-2011 year decreased by less than 1% from 12,629 to 12,532.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

FINANCIAL STATEMENTS

Harrison County School District
Statement of Net Assets
June 30, 2011

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 33,074,018
Due from other governments	3,934,326
Other receivables, net	110,458
Inventories and prepaid items	185,588
Bond issuance costs and amounts deferred due to advance refunding (net of accumulated amortization)	369,724
Restricted assets	5,914,089
Capital assets not being depreciated:	
Land	2,944,254
Construction in progress	1,395,323
Capital assets, net of accumulated depreciation:	
Buildings	111,616,380
Building Improvements	4,451,190
Improvements other than buildings	6,534,625
Mobile equipment	4,818,006
Furniture and equipment	924,967
Leased property under capital leases	525,593
	<u>176,798,541</u>
LIABILITIES	
Accounts payable and accrued liabilities	210,138
Unearned revenue	46,512
Interest payable on long-term liabilities	524,272
Deferred charges on refunding debt	(342,261)
Deferred premiums and discounts	691,510
Long-term liabilities (due within one year)	
Capital related liabilities	3,408,590
Non-capital related liabilities	282,088
Long-term liabilities (due beyond one year)	
Capital related liabilities	44,339,285
Non-capital related liabilities	3,490,989
	<u>52,651,123</u>
NET ASSETS	
Invested in capital assets, (net of related debt)	85,462,463
Restricted net assets	
Expendable:	
School-based activities	5,709,976
Debt Service	5,895,422
Capital improvements	16,349,395
Forestry improvements	223,932
Unemployment benefits	224,168
Nonspendable:	
Sixteenth section	2,012,959
Unrestricted net assets	8,269,103
Total net assets	<u>\$ 124,147,418</u>

The accompanying notes are an integral part of these financial statements.

Exhibit B

Harrison County School District
Statement of Activities
For the Year Ended June 30, 2011

	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets
		Charges for Services	Operating Contributions	Capital Grants and Contributions	
Governmental activities:					
Instruction	\$ 62,935,836	\$ 36,294	\$ 10,322,949	\$ -	\$ (52,576,593)
Support services	35,347,616	718,620	4,027,546	413,185	(30,188,265)
Non-instructional	6,870,684	1,653,460	6,144,769	196,131	1,123,676
Sixteenth section	660,090	53,735	-	-	(606,355)
Interest on long-term liabilities	1,893,868	-	-	-	(1,893,868)
Total governmental activities	107,708,094	2,462,109	20,495,264	609,316	(84,141,405)

General revenues:	
Taxes:	
General purpose levies	31,234,282
Debt purpose levies	3,312,513
Gaming	1,520,211
Unrestricted grants and contributions:	
State	48,534,446
Federal	4,150,877
Unrestricted investment earning	353,267
Sixteenth section sources	2,408,468
Other	242,457
<i>Special item - Forgiveness of Small Community Disaster Loan</i>	7,152,102
Total general revenues and special items	98,908,623
Change in net assets	14,767,218
Net Assets - Beginning	109,380,200
Net Assets - Ending	\$ 124,147,418

The accompanying notes are an integral part of these financial statements.

Exhibit C

Harrison County School District
Balance Sheet - Governmental Funds
June 30, 2011

	General Fund	Title I A Basic Fund	Title I LEA - ARRA Fund	IDEA Part B Fund	Special Note Payment Fund	Other Governmental Funds	Total Governmental Funds
Assets							
Cash and cash equivalents	\$ 10,873,154	\$ -	\$ -	\$ -	\$ 12,181,982	\$ 12,031,841	\$ 35,086,977
Cash with fiscal agents	-	-	-	-	-	542,702	542,702
Investments	-	-	-	-	-	3,358,428	3,358,428
Due from other governments	1,470,971	443,088	10,229	246,510	-	1,763,528	3,934,326
Other receivables	9,259	-	-	-	1,666	99,533	110,458
Due from other funds	1,413	-	103,503	-	1,156,603	18,038	1,279,557
Inventories and prepaid items	-	-	-	-	-	185,588	185,588
Total assets	\$ 12,354,797	\$ 443,088	\$ 113,732	\$ 246,510	\$ 13,340,251	\$ 17,999,658	\$ 44,498,036
Liabilities & Fund Balances							
Liabilities							
Accounts payable & accrued liabilities	\$ 210,138	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 210,138
Due to other funds	121,541	443,088	113,732	246,510	-	354,686	1,279,557
Unearned revenue	-	-	-	-	-	46,512	46,512
Total liabilities	331,679	443,088	113,732	246,510	-	401,198	1,536,207
Fund Balances							
Nonspendable:							
Permanent fund purposes	-	-	-	-	-	2,012,959	2,012,959
Inventry	-	-	-	-	-	185,588	185,588
Restricted for:							
Unemployment benefits	-	-	-	-	-	224,168	224,168
Capital projects	-	-	-	-	13,340,251	5,342,102	18,682,353
Forestry improvement purposes	-	-	-	-	-	223,932	223,932
Debt service	-	-	-	-	-	6,419,694	6,419,694
Committed:							
Other purposes	-	-	-	-	-	703,350	703,350
Assigned:							
Instructional	-	-	-	-	-	139,568	139,568
Noninstructional services	-	-	-	-	-	2,347,099	2,347,099
Unassigned	12,023,118	-	-	-	-	-	12,023,118
Total fund balance	12,023,118	-	-	-	13,340,251	17,598,460	42,961,829
Total liabilities and fund balance	\$ 12,354,797	\$ 443,088	\$ 113,732	\$ 246,510	\$ 13,340,251	\$ 17,999,658	\$ 44,498,036

The accompanying notes are an integral part of these financial statements.

Harrison County School District
 Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
 June 30, 2011

	Amount
Total Fund Balance - Governmental Funds	\$ 42,961,829
 Amounts reported for governmental activities in the statement of net assets are different because:	
1 Capital assets are used in governmental activities and are not financial resources and therefore are not reported in the funds, net of accumulated depreciation \$46,031,524	133,210,338
2 Long-term liabilities are not due and payable in the current period expenditures and therefore are not reported in the governmental funds.	(51,520,952)
3 Governmental funds recognize interest on long-term debt when it becomes due, however the Statement of Net Assets recognizes interest as it accrues.	(524,272)
4 Governmental funds focus on increases and decreases in current financial resources and deferred charges are not current financial resources so are not reflected in the funds:	
Deferred bond issuance costs	369,724
Deferred charges on refunding debt	325,596
Deferred charges on bond discounts	3,384
Deferred charges on bond premiums	(694,894)
Advance refunding escrow	16,665
Total Net Assets - Governmental Activities	\$ 124,147,418

The accompanying notes are an integral part of these financial statements.

Harrison County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances for Governmental Funds
For the Year Ended June 30, 2011

	General Fund	Title I A Basic Fund	Title I LEA - ARRA Fund	IDEA Part B Fund	Special Note Payment Fund	Other Governmental Funds	Total Governmental Funds
Revenues							
Local sources	\$ 31,030,287	\$ -	\$ -	\$ -	\$ 60,665	\$ 7,143,411	\$ 38,234,363
State sources	47,953,998	-	-	-	-	3,105,805	51,059,803
Federal sources	1,018,281	3,633,867	738,211	2,359,479	-	15,588,360	23,540,198
Sixteenth section revenue	-	-	-	-	22,596	2,439,609	2,462,205
Total revenues	<u>80,002,566</u>	<u>3,633,867</u>	<u>738,211</u>	<u>2,559,479</u>	<u>83,261</u>	<u>28,277,185</u>	<u>115,296,569</u>
Expenditures							
Instruction	45,795,705	2,506,650	464,584	1,123,324	-	11,143,134	61,033,397
Support services	26,467,706	655,772	246,544	1,433,905	-	5,609,908	34,415,835
Noninstructional services	2,169	74,470	11,005	250	-	6,596,252	6,684,146
Sixteenth section	-	-	-	-	-	660,090	660,090
Facilities acquisition and construction	125,911	-	-	-	-	1,296,069	1,421,980
Debt service:							
Principal	374,755	-	-	-	-	3,946,506	4,321,261
Interest	110,977	-	-	-	-	1,789,460	1,900,437
Total expenditures	<u>72,877,223</u>	<u>3,236,892</u>	<u>722,133</u>	<u>2,559,479</u>	<u>-</u>	<u>31,041,419</u>	<u>110,437,146</u>
Excess (deficiency) of revenues over expenditures	<u>7,125,343</u>	<u>398,975</u>	<u>16,078</u>	<u>-</u>	<u>83,261</u>	<u>(2,764,234)</u>	<u>4,859,423</u>
Other financing sources (uses):							
Insurance loss recoveries	5,516	-	-	-	-	5,237	10,773
Sales of assets	15,867	-	-	-	-	-	15,867
Payments held by escrow agents	-	-	-	-	-	1,277,755	1,277,755
Proceeds of loans	-	-	-	-	-	3,000,000	3,000,000
Transfers in	394,393	-	-	-	1,231,692	2,025,988	3,652,073
Transfers out	(1,691,851)	(998,975)	(16,078)	-	-	(1,545,169)	(3,632,073)
Payment to QZAB escrow agent	-	-	-	-	-	(1,277,755)	(1,277,755)
Total other financing sources (uses)	<u>(1,276,075)</u>	<u>(998,975)</u>	<u>(16,078)</u>	<u>-</u>	<u>1,231,692</u>	<u>3,486,076</u>	<u>3,026,640</u>
Special item:							
Forgiveness of Small Community Disaster loan	831,596	-	-	-	6,025,000	295,506	7,152,102
Net change in fund balances	<u>6,680,864</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,359,953</u>	<u>1,017,348</u>	<u>15,058,165</u>
Fund balances:							
July 1, 2010	5,342,254	-	-	-	6,000,298	16,551,276	27,893,828
Increase in reserve for inventory	-	-	-	-	-	29,856	29,856
June 30, 2011	<u>\$ 12,023,118</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,340,251</u>	<u>\$ 17,598,460</u>	<u>\$ 42,961,829</u>

The accompanying notes are an integral part of these financial statements.

Harrison County School District
Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2011

		Amount
Net change in fund balances - total governmental funds (Exhibit D)	\$	15,038,165
Amounts reported for governmental activities in the statement of activities are different because:		
1 Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay	\$ 3,031,618	
Depreciation	(4,714,011)	(1,682,393)
2 Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Net Assets.		
		4,321,261
3 The issuance of long-term debt provides current financial resources to governmental funds, but the issuance increases long-term liabilities in the Statement of Net Assets.		
		(3,000,000)
4 Governmental funds recognize interest on long-term debt when it becomes due; however, the Statement of Activities recognizes interest as it accrues regardless of when it comes due.		
		75,190
5 Governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.		
Amortization of bond issuance costs	(65,691)	
Amortization of amounts deferred due to refunding	(97,286)	
Amortization of bond discounts	(3,384)	
Amortization of bond premiums	114,407	
Amortization of advance refunding escrow	(16,667)	(68,621)
6 Expenses in the Statement of Activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds:		
Compensated absences		27,600
7 Gains and losses on the sale or disposals of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds.		
		26,180
8 Increase in inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are decreased in the Statement of Activities.		
		29,836
Change in net assets of governmental activities	\$	14,767,218

The accompanying notes are an integral part of these financial statements.

Harrison County School District
Statement of Fiduciary Assets and Liabilities
June 30, 2011

	<u>Loss Escrow Fund</u>	<u>Agency Funds</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 24,360	\$ 142,002	\$ 166,362
Total assets	<u>\$ 24,360</u>	<u>\$ 142,002</u>	<u>\$ 166,362</u>
Liabilities			
Due to others	\$ 24,360	\$ -	\$ 24,360
Due to student clubs	<u>-</u>	<u>142,002</u>	<u>142,002</u>
Total liabilities	<u>\$ 24,360</u>	<u>\$ 142,002</u>	<u>\$ 166,362</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2011

(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. Basis of Presentation

In February 2009, the GASB issued GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement No. 54. As a result, amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned, or unassigned.

B. Financial Reporting Entity

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

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

C. Government-wide and Fund Financial Statements

Government-wide Financial Statements - The Statement of Net Assets and Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of the inter-fund 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.

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2011

The Statement of Net Assets presents the District's non-fiduciary 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 of 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, are offset by program revenues. Direct expenses are those that are clearly identified 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 taxes and other items not included among program revenues are reported instead as general revenues.

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

The School District reports the following major governmental funds:

General Fund - This is the School District's primary operating fund. The general fund is used to account for and report all financial resources not accounted for in another fund.

Title I A Basic Fund – This special revenue fund is financed with federal funds and is used to account for the activities associated with educationally deprived children.

Title I LEA ARRA Fund - This special revenue fund is financed with federal funds and is used to account for the activities associated with educationally deprived children.

IDEA Part B – This special revenue fund is used to account for the revenues and the expenditures associated with the IDEA Part B Grant.

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2011

Special Note Payment Fund – This debt service fund is used to account for the transfer of unrestricted interest earnings from the Sixteenth Section principal funds.

All other governmental funds not meeting the criteria established for major funds are presented in the other governmental column of the fund financial statements. Additionally, the School District reports the following fund types:

The School District also reports fiduciary funds which focus on net assets and changes in net assets.

GOVERNMENTAL FUNDS

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Capital Projects Funds - Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Debt Service Funds - Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Permanent Funds – Permanent Funds are used to account for and report resources that are restricted to the extent that only earnings, and not the principal, may be used for purposes that support the District’s programs.

FIDUCIARY FUNDS

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

D. 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 recognized when earned and expenses are recorded when the 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.

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2011

Revenues are recognized when they are both measurable and available.

Measurable means knowing or being able to reasonably estimate the amount. Revenues are considered 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 of 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 taxes, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual.

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

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

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

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

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

The account classifications used in the financial statements conform to the classifications recommended in the *Governmental Accounting, Auditing, and Financial Reporting* as issued in 2005 by the Government Finance Officers Association and are consistent with the broad

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2011

classifications recommended in *Financial Accounting for Local and State School Systems, 2003* issued by the U.S. Department of Education.

E. Encumbrances

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

F. Assets, liabilities, and net assets/fund balances

1. Cash and 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 a maturity greater than 12 months when acquired.

Investments are reported at fair value which is determined by market pricing services.

2. Receivables and payables

Activities 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 inter-fund loans) or "advance to/from other funds" (i.e., the non-current portion of inter-fund 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 the applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2011

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 repayment of debt are classified as restricted assets on the Statement of Net Assets because their use is limited by applicable debt statutes, e.g. Qualified Zone Academy sinking funds. Also, the nonexpendable portion of the Permanent Fund, if applicable, is classified as restricted assets because the Sixteenth Section Principal Fund is not available for use by the District except as provided for under state statute for loans from this fund.

6. Capital Assets

Capital assets include land, improvements to land, easements, water rights, timber rights, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Capital assets 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 cost based on appraisals or deflated current replacement cost. Donated capital assets are defined by the District as assets are recorded at estimated fair 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 table below.

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.

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2011

The following schedule details the capitalization thresholds:

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

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

(**) The estimated useful life will vary as deemed appropriate for the District's specific intangible assets. There is no mandated maximum amortization period. Intangible assets with indefinite useful lives should not be amortized.

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 only the compensated absence liability payable from expendable available financial resources only if the payable has matured, for example, an employee retires.

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

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

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2011

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

9. Fund Balances

Fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Governmental fund balance is classified as nonspendable, restricted, committed, assigned or unassigned. Following are descriptions of fund classifications used by the District:

Nonspendable fund balance includes items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds are restricted, committed or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.

Restricted fund balance includes amounts that have constraints placed upon the use of resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

Committed fund balance includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the School Board, the District's highest level of decision-making authority. This formal action is School board's policy.

Assigned fund balance includes amounts that are constrained by the District's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the general fund, this is the residual amount within the fund that is not restricted or committed. Assignments of fund balance are created by the business manager pursuant to authorization established by board policy.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, it may be necessary to report a negative unassigned fund balance.

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) resources are available, it is the District's general policy to use restricted resources first. When expenditures are incurred for purposes which unrestricted (committed, assigned, or unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the District's general policy to spend

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2011

committed resources first, followed by assigned amounts, and then unassigned amounts.

(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 Depository 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 not to exceed fifty percent of all monies invested with maturities of thirty days or longer; (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 management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration not to exceed twenty percent of invested funds. Investment income on bond funds (Capital Projects), bond sinking funds (Debt Service Funds) and Sixteenth Section Principal funds (Permanent Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Amounts less than \$100 can be credited to the General Fund.

Cash and Cash Equivalents

The carrying amount of the School District's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$35,086,977 and \$166,362 respectively. The carrying amount of deposits reported in the government wide statements was: Cash and cash equivalents \$33,074,018 and Restricted Assets \$2,555,661. The bank balance was \$44,271,928.

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.

HARRISON COUNTY SCHOOL DISTRICT
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The District does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the District. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the District. As of June 30, 2011, none of the District's bank balance of \$44,271,928 was exposed to custodial credit risk.

Cash with Fiscal Agents

The carrying amount of School District's cash with fiscal agents held by financial institutions was \$542,702.

Investments

As of June 30, 2011 the District had the following investments:

	<u>Maturities (in years)</u>	<u>Fair value</u>	<u>Rating</u>
Federal Home Loan Bank	Less than 1	\$ 1,688,578	Not rated
Federated US Treasury Cash Reserve	Less than 1	642,542	Not rated
US Treasury Note	6-10	544,958	Aaa
MS Noncallable & Tax Exempt	6-10	<u>482,350</u>	AA
 Total		 <u>\$ 3,358,428</u>	

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

Credit Risk. State law limits investments to those prescribed in Sections 27-105-33(d) and 27-105-33(e), Miss. Code Ann. (1972). The District does not have a formal investment policy that would further limit its 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 investment 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. As of June 30, 2011, the District did not have any investments to which this would apply.

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2011

(3) Interfund Transactions and Balances

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

Receivable Fund	Payable Fund	Amount
General Fund	Other governmental funds	\$ 1,413
Title I LEA - ARRA Fund	General Fund	103,503
Special Note Payment Fund	Title I A Basic Fund	443,088
	Title I LEA ARRA Fund	113,732
	IDEA Part B Fund	246,510
	Other governmental funds	353,273
Other governmental funds	General Fund	<u>18,038</u>
Total		<u>\$ 1,279,557</u>

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

B. Transfers In/Out:

Transfers Out	Transfers In	Amount
General Fund	Other governmental funds	\$ 1,691,851
Title I A Basic Fund	General Fund	64,839
	Other governmental funds	334,137
Title I LEA - ARRA Fund	General Fund	16,078
Other governmental funds	General Fund	313,476
	Special Note Payment Fund	<u>1,231,692</u>
Total		<u>\$ 3,652,073</u>

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

(4) Restricted Assets

The restricted assets totaling \$5,914,089 include the cash balance of \$2,012,959 of Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the District's programs. Also, the restricted assets include cash with fiscal agents and investment balance, totaling \$542,702 and \$2,715,886 respectively, of the QZAB Bond Requirement Funds, and also the investment balance of \$642,542 of the MAEP Limited Obligation Bond Fund.

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2011

(5) Capital Assets

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

	Balance 6/30/2010	Increases	Decreases	Balance 6/30/2011
Governmental Activities:				
Non-depreciable capital assets:				
Land	\$ 2,818,343	\$ 125,911	\$ -	\$ 2,944,254
Construction in progress	<u>104,954</u>	<u>1,290,369</u>	<u>-</u>	<u>1,395,323</u>
Total non-depreciable capital assets	<u>2,923,297</u>	<u>1,416,280</u>	<u>-</u>	<u>4,339,577</u>
Depreciable capital assets:				
Buildings	140,686,633	-	-	140,686,633
Building Improvements	6,701,335	-	-	6,701,335
Improvements other than buildings	7,316,825	-	-	7,316,825
Mobile Equipment	12,179,511	1,594,460	(943,966)	12,830,005
Furniture & Equipment	6,454,461	20,878	53,545	6,528,884
Leased property under capital leases	<u>794,623</u>	<u>-</u>	<u>43,979</u>	<u>838,602</u>
Total depreciable capital assets	<u>174,133,388</u>	<u>1,615,338</u>	<u>(846,442)</u>	<u>174,902,284</u>
Less accumulated depreciation:				
Buildings	(26,145,551)	(2,924,703)	-	(29,070,254)
Building Improvements	(1,994,745)	(255,400)	-	(2,250,145)
Improvements other than buildings	(497,023)	(285,177)	-	(782,200)
Mobile Equipment	(8,141,258)	(720,310)	849,570	(8,011,998)
Furniture & Equipment	(5,202,803)	(414,463)	13,349	(5,603,917)
Leased property under capital leases	<u>(208,754)</u>	<u>(113,958)</u>	<u>9,703</u>	<u>(313,009)</u>
Total accumulated depreciation	<u>(42,190,134)</u>	<u>(4,714,011)</u>	<u>872,622</u>	<u>(46,031,523)</u>
Total depreciable capital assets, net	<u>131,943,254</u>	<u>(3,098,673)</u>	<u>26,180</u>	<u>128,870,761</u>
Governmental activities capital assets, net	<u>\$ 134,866,551</u>	<u>\$ (1,682,393)</u>	<u>\$ 26,180</u>	<u>\$ 133,210,338</u>

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2011

Depreciation expense was charged to the following governmental functions:

Instruction	\$ 2,011,469
Support services	2,486,169
Non instructional	<u>216,373</u>
Total depreciation expense	<u>\$ 4,714,011</u>

Commitments under construction contracts at June 30, 2011, are summarized as follows:

	Spent as of June 30, 2011	Remaining Commitment
Orange Grove Cafeteria Addition	\$ 1,395,323	\$ 264,735

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2011

(6) Long-term liabilities.

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

	Balance 7/1/2010	Additions	Reductions	Balance 6/30/2011	Amount due within one year
A. General obligation bonds	\$ 10,470,000	\$ -	\$ 1,270,000	\$ 9,200,000	\$ 1,340,000
Add deferred amounts:					
For issuance premiums	612,729	-	102,121	510,608	-
Less deferred amounts:					
On refunding	<u>(342,465)</u>	<u>-</u>	<u>(57,078)</u>	<u>(285,387)</u>	<u>-</u>
Total general obligation bonds	<u>10,740,264</u>	<u>-</u>	<u>1,315,043</u>	<u>9,425,221</u>	<u>1,340,000</u>
B. Limited obligation bonds	12,165,000	-	1,100,000	11,065,000	1,260,000
Less deferred amounts:				-	
For issuance discounts	(6,768)	-	(3,384)	(3,384)	-
Advance funding escrow	(33,332)	-	(16,667)	(16,665)	-
On refunding	<u>(80,417)</u>	<u>-</u>	<u>(40,208)</u>	<u>(40,209)</u>	<u>-</u>
Total limited obligation bonds	<u>12,044,483</u>	<u>-</u>	<u>1,039,741</u>	<u>11,004,742</u>	<u>1,260,000</u>
C. Three mill notes	17,455,000	-	675,000	16,780,000	700,000
Add deferred amounts:					
For issuance premiums	<u>196,572</u>	<u>-</u>	<u>12,286</u>	<u>184,286</u>	<u>-</u>
Total three mill notes	<u>17,651,572</u>	<u>-</u>	<u>687,286</u>	<u>16,964,286</u>	<u>700,000</u>
D. Shortfall notes	295,506	-	295,506	-	-
E. Obligations under capital lease	412,558	-	103,683	308,875	108,590
F. Obligations under energy efficiency lease	2,750,289	-	271,072	2,479,217	282,088
G. Qualified zone academy bonds	5,000,000	-	606,000	4,394,000	-
H. Qualified School construction bonds	3,000,000	3,000,000	-	6,000,000	-
I. Compensated absences	<u>1,321,460</u>	<u>-</u>	<u>27,600</u>	<u>1,293,860</u>	<u>-</u>
Total	<u>\$ 53,216,132</u>	<u>\$ 3,000,000</u>	<u>\$ 4,345,931</u>	<u>\$ 51,870,201</u>	<u>\$ 3,690,678</u>

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements
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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	Average Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Series 2005	3.25%-5.0%	7/5/2005	3/1/2017	<u>\$ 13,955,000</u>	<u>\$ 9,200,000</u>

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

Year Ending June 30,	Principal	Interest	Total
2012	\$ 1,340,000	\$ 460,000	\$ 1,800,000
2013	1,400,000	393,000	1,793,000
2014	1,485,000	323,000	1,808,000
2015	1,570,000	248,750	1,818,750
2016	1,660,000	200,750	1,860,750
2017-2021	<u>1,745,000</u>	<u>56,750</u>	<u>1,801,750</u>
	<u>\$ 9,200,000</u>	<u>\$ 1,682,250</u>	<u>\$ 10,882,250</u>

The amount of bonded indebtedness that can be incurred by the School District is limited by state statute. Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such District, according to the then last completed assessment for taxation, unless certain conditions, as set forth in state statutes, have been met. As of June 30, 2011, the amount of outstanding bonded indebtedness was equal to 1.1% of property assessments as of October 1, 2010. This debt will be retired from the debt service fund.

B. Limited obligation notes payable

Limited obligation notes are direct obligations and pledge the full faith and credit of the School District. Limited obligation notes currently outstanding are as follows:

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2011

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital improvement bonds, Series 1998	4.4-6.5%	5/1/1998	8/1/2011	\$ 19,520,000	\$ 1,155,000
State aid capital improvement refunding bonds, Series 2006	3.625-5.0%	2/1/2007	2/1/2018	<u>9,910,000</u>	<u>9,910,000</u>
Total				<u>\$ 29,430,000</u>	<u>\$11,065,000</u>

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

Limited obligation bond issue of 5/1/1998:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 1,155,000	\$ 27,143	\$ 1,182,143

Limited obligation bond issue of 2/1/2007:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 105,000	\$ 374,534	\$ 479,534
2013	1,320,000	346,034	1,666,034
2014	1,370,000	292,234	1,662,234
2015	1,425,000	239,006	1,664,006
2016	1,480,000	185,798	1,665,798
2017-2021	<u>4,210,000</u>	<u>200,679</u>	<u>4,410,679</u>
Total	<u>\$ 9,910,000</u>	<u>\$ 1,638,285</u>	<u>\$ 11,548,285</u>

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2011

Total limited obligation bond payments for all issues:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 1,260,000	\$ 401,677	\$ 1,661,677
2013	1,320,000	346,034	1,666,034
2014	1,370,000	292,234	1,662,234
2015	1,425,000	239,006	1,664,006
2016	1,480,000	185,798	1,665,798
2017-2021	<u>4,210,000</u>	<u>200,679</u>	<u>4,410,679</u>
Total	<u>\$ 11,065,000</u>	<u>\$ 1,665,428</u>	<u>\$ 12,730,428</u>

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

C. Three mill notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Three mill note, 2007	4.0-5.0%	6/22/2007	6/1/2027	<u>\$ 17,755,000</u>	<u>\$ 16,780,000</u>

Year Ending June 30,	Principal	Interest	Total
2012	\$ 700,000	\$ 735,069	\$ 1,435,069
2013	735,000	706,369	1,441,369
2014	760,000	676,468	1,436,468
2015	790,000	645,468	1,435,468
2016	825,000	613,168	1,438,168
2017-2021	4,635,000	2,527,631	7,162,631
2022-2026	5,665,000	1,045,623	6,710,623
2027-2031	<u>2,670,000</u>	<u>99,385</u>	<u>2,769,385</u>
Total	<u>\$ 16,780,000</u>	<u>\$ 7,049,181</u>	<u>\$ 23,829,181</u>

HARRISON COUNTY SCHOOL DISTRICT
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This debt will be retired from the Debt Service Fund and the EEF Buildings and Buses Fund. The District has pledged the monies received from the Education Enhancement Funds to pay on the debt service of this note.

D. Shortfall notes payable

In fiscal year 2008, the School District borrowed \$295,506 from the U.S. Department of Homeland Security (FEMA) under the Community Disaster Loan program.

It was determined that the District incurred a \$7,152,102 cumulative operating deficit during the three year period following Hurricane Katrina, therefore, the District was allowed to drawdown the remaining \$6,856,596 of the loan during FY 2011. Pursuant to HR 2206- Public Law 110-28, FEMA has allowed the complete forgiveness of this Community Disaster loan

E. Obligations under capital leases

The School District has entered into 4 lease agreements that qualify as capital leases for accounting purposes. Leased property under these leases is composed of Copiers, Digital Key System, and Duplicators. The District Maintenance fund will retire this debt.

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

Year Ending June 30,	Principal	Interest and Maintenance	Total
2012	\$ 108,590	\$ 10,665	\$ 119,255
2013	112,417	6,838	119,255
2014	80,580	3,443	84,023
2015	<u>7,288</u>	<u>541</u>	<u>7,829</u>
Total	<u>\$ 308,875</u>	<u>\$ 21,487</u>	<u>\$ 330,362</u>

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

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2011

F. Obligations under energy efficient lease

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Hancock Bank Energy Efficient Lease	4.06%	6/15/2004	2/15/2019	<u>\$ 4,168,343</u>	<u>\$ 2,479,217</u>

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

Year Ending June 30,	Principal	Interest	Total
2012	\$ 282,088	\$ 93,800	\$ 375,888
2013	293,552	82,336	375,888
2014	305,481	70,407	375,888
2015	317,895	57,993	375,888
2016	330,814	45,074	375,888
2017-2019	<u>949,387</u>	<u>53,291</u>	<u>1,002,678</u>
Total	<u>\$ 2,479,217</u>	<u>\$ 402,901</u>	<u>\$ 2,882,118</u>

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

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

G. Qualified zone academy bonds payable

As more fully explained in Note 11, debt has been issued by the School District that qualifies as Qualified Zone Academy bonds.

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2011

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Series 2004	N/A	5/3/2004	5/3/2014	\$ 1,894,000	\$ 1,894,000
Series 2008	N/A	6/17/2008	6/17/2020	<u>2,500,000</u>	<u>2,500,000</u>
				<u>\$ 4,394,000</u>	<u>\$ 4,394,000</u>

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

H. Qualified School construction bonds payable

As more fully explained in Note 12, debt has been issued by the School District that qualifies as Qualified School Construction bonds. Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Series 2009	N/A	12/29/2009	9/15/2022	\$ 3,000,000	\$ 3,000,000
Series 2010	N/A	12/20/2010	12/15/2020	<u>3,000,000</u>	<u>3,000,000</u>
				<u>\$ 6,000,000</u>	<u>\$ 6,000,000</u>

I. 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.

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements
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(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 9% of their annual covered salary, and the School District is required to contribute at an actuarially determined rate. The employer's rate for the fiscal year ended June 30, 2011 is 12.00% 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, 2011, 2010 and 2009 were \$7,098,244 \$7,144,632, and \$6,978,150, respectively, which equaled the required contributions for each year.

(8) Other Commitments

Commitments under construction contracts are described in Note 5.

The School District replaced copiers previously under operating leases for lease purchased copiers and has only one operating lease for a digital mailing machine remaining. Future lease payments for this remaining operating lease are as follows:

Year Ending	
June 30,	Amount
2012	\$ 4,092
2013	4,092
2014	4,092
2015	<u>4,092</u>
Total	<u>\$ 16,368</u>

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2011

(9) Sixteenth Section Lands

Sixteenth Section School lands, or lands granted in lieu thereof, constitute property held in trust for the benefit of the public schools.

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

Year Ending June 30	Amount
2012	\$ 1,992,992
2013	2,034,302
2014	2,095,924
2015	2,176,853
2016	2,247,639
2017-2021	12,738,465
2022-2026	15,792,484
2027-2031	19,567,193
2032-2036	21,301,768
Thereafter	<u>46,072,210</u>
Total	<u>\$ 126,019,830</u>

(10) Risk Management & Contingencies

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

The School District is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 72 School Districts and covers risks of loss arising from injuries to member's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations for each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Wells Fargo in Portland, Oregon.

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2011

The funds in the trust are used to pay any claim up to \$750,000. For a claim exceeding \$750,000, MSBAWCT has insurance which will pay the excess to the statutory amount required by Mississippi Workers Compensation Commission Act. If total claims during a year were to deplete the trust account, then the member School Districts would be required to pay for deficiencies.

(11) Qualified Zone Academy Bonds

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

Series 2004

The School District, in agreement with Bell South Telecommunications, Inc. has entered into such an arrangement date March 2, 2004. The agreement schedules Bell South Telecommunications, Inc., to provide a total of 1,448 hours to be made in approximately equal amounts over a 5 year period ending June 30, 2008.

This agreement establishes a method of repayment for a qualified interest-free debt instrument, and requires the School District to deposit funds annually into a sinking fund on or before May 5 of each year. The amount on deposit at June 30, 2011 was \$1,689,562. The amount accumulated in the sinking fund account at the end of the ten year period will be sufficient to retire the debt.

Series 2008

The School District, in agreement with CyberLearning, entered into another such an arrangement dated June 17, 2008. The agreement schedules CyberLearning to provide a total of 2,200 software licenses. This contribution has a present value of \$152,556. This agreement establishes a method of repayment for a qualified interest-free debt instrument, and requires the School District to deposit funds annually into a sinking fund account on or before July 1 each year. The amount on deposit at June 30, 2011 was \$1,569,023. The amount accumulated in the sinking fund account at the end of the twelve year period will be sufficient to retire the debt.

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2011

The following schedule reports the yearly deposits to be made to the sinking funds by the School District:

Year Ending June 30,	Amount
2012	\$ 525,000
2013	388,500
2014	63,600
2015	65,300
2016	67,000
2017-2020	<u>353,600</u>
Total	<u>\$ 1,463,000</u>

(12) Qualified School Construction Bonds

Section 1521 of the American Recovery and Reinvestment Act (ARRA) of 2009 provides for a source of capital at no or at nominal interest rates for costs incurred by certain public schools in connection with the construction, rehabilitation or repair of a public School facility or for the acquisition of land where a School will be built. Investors receive Federal income tax credits at prescribed tax credit rates in lieu of interest, which essentially allows state and local governments to borrow without incurring interest costs.

The School District makes equal annual payments into a sinking fund which is used to payoff the bonds at termination. The current maturity limit of tax credit bonds is 17 years, per the U.S. Treasury Department. Under this program, ten percent of the proceeds must be subject to a binding commitment to be spent within six months of issuance and 100% must be spent within three years. Up to two percent of bond proceeds can be used to pay costs of issuance. The amount on deposit at June 30, 2011 was \$230,770.

The amount accumulated in the sinking fund at the end of the fourteen-year period will be sufficient to retire the debt.

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2011

The following schedule reports the annual deposits, inclusive of interest earnings from the prior twelve months, to be made to the sinking fund by the School District:

Year Ending June 30,	Amount
2012	\$ 280,770
2013	430,770
2014	573,770
2015	573,770
2016	574,770
2017-2021	2,873,850
2022-2026	<u>461,530</u>
Total	<u>\$ 5,769,230</u>

(13) Federal Grants

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

(14) Special Item

In the fiscal year 2008, the School District borrowed \$295,506 from the U. S. Department of Homeland Security (FEMA) under the Community Disaster Loan program. This was a shortfall note and the purpose was to provide funds for a shortfall in the local budget that was caused by damages to properties and tax assessments and related collections as a result of Hurricane Katrina in August 2005.

Pursuant to HR 2206- Public Law 110-28, FEMA has allowed forgiveness of this Community Disaster Loan debt. It was determined that the District had incurred a \$7,152,102 cumulative operating deficit during the three year period following Hurricane Katrina, therefore, the District was allowed to drawdown the remaining \$6,856,596 of the loan during FY 2011.

(15) Subsequent Events

Events that occur after the statement of net assets date but before the financial statements were available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the statement of net assets date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the statement of net assets date require disclosure in the accompanying notes.

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2011

Management of Harrison County School District evaluated the activity of the District through January 2012, and determined that the following subsequent events have occurred that require disclosure in the notes to the financial statements.

In August 2011, the District purchased 10 new School buses from Waters Truck and Tractor in the amount of \$812,850 to be paid from District funds.

In August 2011, the District also sold approximately 6,716 square feet of land to the Mississippi Department of Transportation in the amount of \$70,520. The District also purchased 10 acres of land adjacent to Lizana Elementary School in the amount of \$45,000 for future School expansion.

On October 17, 2011, the School District awarded a construction contract to David Rush Construction LLC for the baseball field, terrace press box and concession stand replacement at Harrison Central High School in the amount of \$406,000.

In November 2011, the District awarded a construction contract to JW Puckett for classroom additions at West Wortham Elementary School in the amount of \$1,352,000.

REQUIRED SUPPLEMENTARY INFORMATION

**Harrison County School District
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2011**

	<u>Budgeted Amounts</u>		Actual (GAAP Basis)	<u>Variances - Positive (Negative)</u>	
	Original	Final		Original to Final	Final to Actual
REVENUES					
Local sources	\$ 29,848,664	\$ 30,792,307	\$ 31,030,287	\$ 943,643	\$ 237,980
State sources	49,672,943	49,672,943	47,953,998	-	(1,718,945)
Federal sources	3,895,008	910,000	1,018,281	(2,985,008)	108,281
Total revenues	<u>83,416,615</u>	<u>81,375,250</u>	<u>80,002,566</u>	<u>(2,041,365)</u>	<u>(1,372,684)</u>
EXPENDITURES					
Instruction	54,290,249	51,136,700	45,795,705	3,153,549	5,340,995
Support services	28,717,063	29,713,589	26,467,706	(996,526)	3,245,883
Noninstructional services	8,748	8,748	2,169	-	6,579
Facilities acquisition and construction	-	125,911	125,911	(125,911)	-
Debt Service:					
Principal	-	-	374,755	-	(374,755)
Interest	-	-	110,977	-	(110,977)
Total Expenditures	<u>83,016,060</u>	<u>80,984,948</u>	<u>72,877,223</u>	<u>2,031,112</u>	<u>8,107,725</u>
Excess (deficiency) of revenues over expenditures	<u>400,555</u>	<u>390,302</u>	<u>7,125,343</u>	<u>(10,253)</u>	<u>6,735,041</u>
OTHER FINANCING SOURCES (USES)					
Insurance loss recoveries	-	-	5,516	-	5,516
Sale of assets	-	-	15,867	-	15,867
Operating transfers in	3,176,409	3,297,873	394,393	121,464	(2,903,480)
Operating transfers out	(1,684,227)	(1,583,891)	(1,691,851)	100,336	(107,960)
Total other financing sources (uses)	<u>1,492,182</u>	<u>1,713,982</u>	<u>(1,276,075)</u>	<u>221,800</u>	<u>(2,990,057)</u>
SPECIAL ITEM					
Forgiveness of Small Community Disaster loan	-	831,596	831,596	(831,596)	-
Net change in Fund Balances	1,892,737	2,935,880	6,680,864	(620,049)	3,744,984
Fund balances:					
July 1, 2010	<u>3,900,580</u>	<u>5,326,253</u>	<u>5,342,254</u>	<u>1,425,673</u>	<u>16,001</u>
June 30, 2011	<u>\$ 5,793,317</u>	<u>\$ 8,262,133</u>	<u>\$ 12,023,118</u>	<u>\$ 805,624</u>	<u>\$ 3,760,985</u>

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

Harrison County School District
 Budgetary Comparison Schedule
 Title I A Basic Fund
 For the Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		Actual (GAAP Basis)	<u>Variances - Positive (Negative)</u>	
	<u>Original</u>	<u>Final</u>		<u>Original to</u>	<u>Final to Actual</u>
REVENUES					
Federal sources	\$ 4,712,173	\$ 4,852,173	\$ 3,635,867	\$ 140,000	\$ (1,216,306)
Total revenues	<u>4,712,173</u>	<u>4,852,173</u>	<u>3,635,867</u>	<u>140,000</u>	<u>(1,216,306)</u>
EXPENDITURES					
Instruction	3,221,051	3,218,986	2,506,650	2,065	712,336
Support services	1,401,019	1,037,549	655,772	363,470	381,777
Noninstructional services	90,103	88,950	74,470	1,153	14,480
Total Expenditures	<u>4,712,173</u>	<u>4,345,485</u>	<u>3,236,892</u>	<u>366,688</u>	<u>1,108,593</u>
Excess (deficiency) of revenues over expenditures	-	506,688	398,975	506,688	(107,713)
OTHER FINANCING SOURCES (USES)					
Operating transfers out	-	(506,405)	(398,975)	(506,405)	107,430
Total other financing sources (uses)	-	(506,405)	(398,975)	(506,405)	107,430
Net change in Fund Balances	-	283	-	283	(283)
Fund balances:					
July 1, 2010	-	-	-	-	-
June 30, 2011	<u>\$ -</u>	<u>\$ 283</u>	<u>\$ -</u>	<u>\$ 283</u>	<u>\$ (283)</u>

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

Harrison County School District
 Budgetary Comparison Schedule
 Title I LEA - ARRA Fund
 For the Year Ended June 30, 2011

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative) Original to	
	Original	Final		Final	Final to Actual
REVENUES					
Federal sources	\$ 1,000,000	\$ 1,000,000	\$ 738,211	\$ -	\$ (261,789)
Total revenues	<u>1,000,000</u>	<u>1,000,000</u>	<u>738,211</u>	<u>-</u>	<u>(261,789)</u>
EXPENDITURES					
Instruction	501,272	588,024	464,584	(86,752)	123,440
Support services	454,030	311,407	246,544	142,623	64,863
Noninstructional services	10,023	11,081	11,005	(1,058)	76
Total Expenditures	<u>965,325</u>	<u>910,512</u>	<u>722,133</u>	<u>54,813</u>	<u>188,379</u>
Excess (deficiency) of revenues over expenditures	<u>34,675</u>	<u>89,488</u>	<u>16,078</u>	<u>54,813</u>	<u>(73,410)</u>
OTHER FINANCING SOURCES (USES)					
Operating transfers out	<u>(34,675)</u>	<u>(34,675)</u>	<u>(16,078)</u>	<u>-</u>	<u>18,597</u>
Total other financing sources (uses)	<u>(34,675)</u>	<u>(34,675)</u>	<u>(16,078)</u>	<u>-</u>	<u>18,597</u>
Net change in Fund Balances	-	54,813	-	54,813	(54,813)
Fund balances:					
July 1, 2010	-	-	-	-	-
June 30, 2011	<u>\$ -</u>	<u>\$ 54,813</u>	<u>\$ -</u>	<u>\$ 54,813</u>	<u>\$ (54,813)</u>

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

Harrison County School District
 Budgetary Comparison Schedule
 IDEA Part B Fund
 For the Year Ended June 30, 2011

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative) Original to	
	Original	Final		Final	Final to Actual
REVENUES					
Federal sources	\$ 3,117,936	\$ 3,690,713	\$ 2,559,479	\$ 572,777	\$ (1,131,234)
Total revenues	<u>3,117,936</u>	<u>3,690,713</u>	<u>2,559,479</u>	<u>572,777</u>	<u>(1,131,234)</u>
EXPENDITURES					
Instruction	979,375	2,066,168	1,123,324	(1,086,793)	942,844
Support services	1,889,275	1,623,045	1,435,905	266,230	187,140
Noninstructional services	-	1,500	250	(1,500)	1,250
Total Expenditures	<u>2,868,650</u>	<u>3,690,713</u>	<u>2,559,479</u>	<u>(822,063)</u>	<u>1,131,234</u>
Excess (deficiency) of revenues over expenditures	<u>249,286</u>	<u>-</u>	<u>-</u>	<u>(249,286)</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)					
Operating transfers out	-	(34,675)	-	(34,675)	34,675
Total other financing sources (uses)	<u>-</u>	<u>(34,675)</u>	<u>-</u>	<u>(34,675)</u>	<u>34,675</u>
Net change in Fund Balances	249,286	(34,675)	-	(283,961)	34,675
Fund balances:					
July 1, 2010	-	-	-	-	-
June 30, 2011	<u>\$ 249,286</u>	<u>\$ (34,675)</u>	<u>\$ -</u>	<u>\$ (283,961)</u>	<u>\$ 34,675</u>

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

HARRISON COUNTY SCHOOL DISTRICT
Notes to the Budgetary Comparison Schedules
For the Year Ended June 30, 2011

Budgetary Comparison Schedules

(1) Basis of Presentation.

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

(2) Budget Amendments and Revisions.

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

SUPPLEMENTAL INFORMATION

Harrison County School District
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2011

Federal Grantor/ Pass- through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U. S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	\$ 1,412,515
National school lunch program	10.555	4,320,762
Summer food service program for children	10.559	243,986
Total child nutrition cluster		<u>5,977,263</u>
Passed-through Harrison County, Mississippi:		
Schools and Roads - Grants to States	10.665	103,515
Total U. S. Department of Agriculture		<u>6,080,778</u>
<u>U. S. Department of Defense</u>		
Direct program:		
Reserve Officers' Training Corps	12.xxx	182,179
Total U. S. Department of Defense		<u>182,179</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.xxx	318,365
Total Federal Communications Commission		<u>318,365</u>
<u>U. S. Department of Education</u>		
Direct programs:		
Impact aid	84.041	62,380
Total		<u>62,380</u>
Passed-through Mississippi Department of Education:		
Title I - cluster:		
Title I - Grants to local education agencies	84.010	3,638,623
ARRA - Title I - Grants to local education agencies, recovery act	84.389	739,412
Total Title I cluster		<u>4,378,035</u>
Educational Technology State Grants cluster:		
Education technology - state grants	84.318	30,895
ARRA - Education Technology - State grants, recovery act	84.386	50,694
Total Education Technology State Grants cluster		<u>81,589</u>
Career and technical education - Basic grants to states	84.048	114,269
Safe and drug-free schools and communities - state grants	84.186	19,415
Education of Homeless Children and Youth	84.196	134,560
English language acquisition grants	84.365	30,339

(Continued)

Harrison County School District
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2011

Improving teacher quality - state grants	84.367	656,968
School improvement grant	84.377	26,449
ARRA - State fiscal stabilization funds - education state grants, recovery act	84.394	3,295,008
ARRA - Independent living - State grants, recovery act	84.398	244,608
Education Jobs Fund	84.410	2,460,513
Hurricane education recovery act programs	84.938	850,996
		<u>7,914,714</u>
Special education cluster:		
Special education - grants to states	84.027	2,601,704
Special education - preschool grants	84.173	104,177
ARRA - Special education grants to states, recovery act	84.391	1,327,036
Total Special education cluster		<u>4,032,917</u>
Total passed-through Mississippi Department of Education		<u>16,325,666</u>
Total U. S. Department of Education		<u>16,388,046</u>
<u>Social Security Administration</u>		
Passed-through Mississippi Department of Education:		
Social Security - Work incentives planning and assistance program	96.008	309,617
Total Social Security Administration		<u>309,617</u>
<u>Department of Homeland Security</u>		
Passed-through the Mississippi Emergency Management Agency		
Disaster grants - Public Assistance (Presidentially Declared Disasters)	97.036	54,601
Total Department of Homeland Security		<u>54,601</u>
 Total for All Federal Awards		 <u>\$ 23,333,586</u>

NOTES TO SCHEDULE

1. This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the financial statements.
2. The expenditure amounts include transfers out.
3. The pass-through entities did not assign identifying numbers to the school district.
4. The school district received \$7,152,102 in Small Community Disaster loans during the fiscal year. All of this amount has been forgiven and the school district has only spent \$295,506 of this amount.

Harrison County School District
 Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
 For the Year Ended June 30, 2011

Expenditures	Total	Instruction and Other Student Instructional Expenditures		
		General Administration	School Administration	Other
Salaries and fringe benefits	\$ 75,705,744	\$ 1,563,391	\$ 5,664,606	\$ 7,599,130
Other	<u>34,731,402</u>	<u>416,840</u>	<u>98,173</u>	<u>26,281,486</u>
Total	<u>\$ 110,437,146</u>	<u>\$ 1,980,231</u>	<u>\$ 5,762,779</u>	<u>\$ 33,880,616</u>
Total number of students *	12,532			
Cost per student	<u>\$ 8,813</u>	<u>\$ 158</u>	<u>\$ 460</u>	<u>\$ 2,704</u>

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

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

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

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

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

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

OTHER INFORMATION

"UNAUDITED"

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

Revenues	2011	2010 *	2009 *	2008 *
Local sources	\$ 31,030,287	\$ 25,702,414	\$ 22,387,892	\$ 21,516,758
State sources	47,953,998	48,647,541	52,858,296	53,636,608
Federal sources	1,018,281	652,049	763,661	944,763
Total revenues	<u>80,002,566</u>	<u>75,002,004</u>	<u>76,009,849</u>	<u>76,098,129</u>
 Expenditures				
Instruction	45,795,705	47,526,332	52,190,450	49,224,567
Support services	26,467,706	26,781,628	29,175,019	27,080,736
Noninstructional services	2,169	1,693	45,654	5,344
Facilities acquisition and construction	125,911	-	-	-
Debt service:				
Principal	374,755	353,716	381,694	333,425
Interest	110,977	127,425	132,366	138,918
Total expenditures	<u>72,877,223</u>	<u>74,790,794</u>	<u>81,925,183</u>	<u>76,782,990</u>
 Excess (deficiency) of revenues over expenditures	<u>7,125,343</u>	<u>211,210</u>	<u>(5,915,334)</u>	<u>(684,861)</u>
 Other financing sources (uses):				
Inception of capital leases	-	95,415	443,558	36,441
Insurance loss recoveries	5,516	3,777	116,321	-
Sales of assets	15,867	-	97,595	44,700
Operating transfers in	394,393	4,240,709	3,900,491	872,632
Operating transfers out	<u>(1,691,851)</u>	<u>(2,480,423)</u>	<u>(1,731,678)</u>	<u>(1,818,128)</u>
Total other financing sources (uses)	<u>(1,276,075)</u>	<u>1,859,478</u>	<u>2,826,287</u>	<u>(864,355)</u>
 Speical item:				
Forgiveness of small community disaster loan	<u>831,596</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Net change in fund balances	6,680,864	2,070,688	(3,089,047)	(1,549,216)
 Fund balances:				
July 1,	5,342,254	3,271,566	6,360,613	7,909,829
June 30,	<u>\$ 12,023,118</u>	<u>\$ 5,342,254</u>	<u>\$ 3,271,566</u>	<u>\$ 6,360,613</u>

* SOURCE - PRIOR YEAR AUDIT REPORTS

"UNAUDITED"

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

Revenues	2011	2010 *	2009 *	2008 *
Local sources	\$ 38,234,363	\$ 33,631,896	\$ 30,740,217	\$ 30,329,781
State sources	51,059,803	51,684,429	56,030,190	55,917,453
Federal sources	23,540,198	20,121,247	20,098,781	34,467,201
Sixteenth section sources	2,462,205	2,141,201	2,097,154	1,902,922
Total revenues	<u>115,296,569</u>	<u>107,578,773</u>	<u>108,966,342</u>	<u>122,617,357</u>
Expenditures				
Instruction	61,033,397	61,243,494	63,382,342	57,386,991
Support services	34,415,835	32,647,573	36,262,933	35,121,598
Noninstructional services	6,684,146	6,542,487	6,902,029	6,048,056
Sixteenth section	660,090	718,140	609,779	483,059
Facilities acquisition and construction	1,421,980	1,524,482	38,241,258	45,193,235
Debt service:				
Principal	4,321,261	2,907,630	2,536,694	3,253,425
Interest	1,900,437	2,023,096	2,079,417	2,009,399
Other	-	-	-	53,575
Total expenditures	<u>110,437,146</u>	<u>107,606,902</u>	<u>150,014,452</u>	<u>149,549,338</u>
Excess (deficiency) of revenues over expenditures	<u>4,859,423</u>	<u>(28,129)</u>	<u>(41,048,110)</u>	<u>(26,931,981)</u>
Other financing sources (uses):				
Proceeds of loans	3,000,000	3,000,000	-	2,795,506
Inception of capital leases	-	95,415	443,558	36,441
Insurance loss recoveries	10,773	3,777	1,338,981	-
Payments to escrow agent for QZAB	(1,277,755)	(515,000)	(366,890)	(200,000)
Payment held by escrow agent for QZAB	1,277,755	515,000	366,890	200,000
Sales of assets	15,867	-	97,595	44,700
Operating transfers in	3,652,073	8,480,250	35,988,214	26,376,186
Operating transfers out	(3,652,073)	(8,480,250)	(35,988,214)	(26,376,186)
Total other financing sources (uses)	<u>3,026,640</u>	<u>3,099,192</u>	<u>1,880,134</u>	<u>2,876,647</u>
Special item:				
Forgiveness of small community disaster loan	<u>7,152,102</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	15,038,165	3,071,063	(39,167,976)	(24,055,334)
Fund balances:				
July 1, as originally reported	27,893,828	24,789,547	63,992,049	86,334,757
Prior period adjustments	-	-	-	1,771,163
July 1, as restated	<u>27,893,828</u>	<u>24,789,547</u>	<u>63,992,049</u>	<u>88,105,920</u>
Increase (Decrease) in reserve for inventory	29,836	33,218	(34,526)	(58,537)
June 30,	<u>\$ 42,961,829</u>	<u>\$ 27,893,828</u>	<u>\$ 24,789,547</u>	<u>\$ 63,992,049</u>

* SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

WRIGHT, WARD, HATTEN & GUEL

PROFESSIONAL LIMITED LIABILITY COMPANY

(SUCCESSORS TO A. L. EVANS & COMPANY ESTABLISHED 1929)

Certified Public Accountants

HANCOCK BANK BUILDING

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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

January 6, 2012

To the Superintendent and School Board
Harrison County School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Harrison County School District, as of and for the year ended June 30, 2011, which collectively comprise the Harrison County School District's basic financial statements and have issued our report thereon dated January 6, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting as items 2011-1, 2011-2, 2011-3, and 2011-4. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

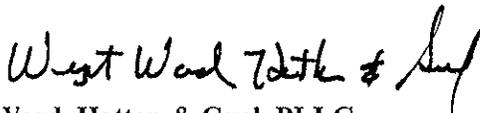
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Harrison County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2011-1, 2011-2, 2011-3 and 2011-4.

We noted certain matters that we reported to management of the Harrison County School District, in a separate letter dated January 6, 2012.

Harrison County School District's responses to the findings identified in our audit are described in the accompanying auditee's corrective action plan. We did not audit Harrison County School District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, City Council, others within the entity, 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.



Wright, Ward, Hatten & Guel, PLLC
Gulfport, Mississippi

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

WRIGHT, WARD, HATTEN & GUEL

PROFESSIONAL LIMITED LIABILITY COMPANY

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVERCOMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

January 6, 2012

Superintendent and School Board
Harrison County School District

Compliance

We have audited Harrison County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Harrison County School District's major federal programs for the year ended June 30, 2011. Harrison County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Harrison County School District's management. Our responsibility is to express an opinion on Harrison County School District's compliance based on our audit.

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

In our opinion, Harrison County School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed an instance of

noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2011-5.

Internal Control Over Compliance

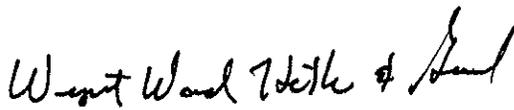
Management of Harrison County School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Harrison County School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Harrison County School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2011-5. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Harrison County School District's response to the findings identified in our audit are described in the accompanying auditee's corrective action plan. We did not audit Harrison County School District's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of management, the School board, others within the entity, 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.



Wright, Ward, Hatten & Guel, PLLC
Gulfport, Mississippi

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

January 6, 2012

The Superintendent and School Board
Harrison County School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Harrison County School District as of and for the year ended June 30, 2011, and have issued our report dated January 6, 2012. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The District reported \$106,438 of classroom supply funds carried over from previous years.

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

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

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

The results of those procedures performed to test compliance with certain other state laws and regulations and out audit of the financial statements disclosed instances of noncompliance described in Findings 2011-1, 2011-2, 2011-3, and 2011-4 in the Schedule of Findings and Questioned Costs and the following immaterial instances of noncompliance with other state laws and regulations. Our immaterial findings and recommendations and your responses are as follows:

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

Finding

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

During our testing of re-employed retirees, we noted the following instance of noncompliance:

An employee earned \$157 in salary more than the state allowed per PERS Form 4B due to the employee receiving more in salary payment.

Recommendation

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

School District's Response

We concur with the finding and will implement procedures to ensure that the District complies with the code requirements.

2. Improper Authorization of School Property by Exchange

Finding

Section 37-7-431 Miss. Code Ann. (1972), states "...Any such trade of lands shall be subject to approval by the chancery court of the county in which the School lands lie. Notice of the hearing before the chancery court shall be published in a newspaper of general circulation in the School District for three (3) consecutive weeks, the first notice to be at least thirty (30) days prior to the hearing."

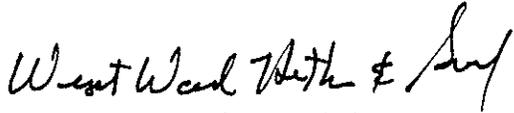
During our audit testing we noted that the District swapped land with an individual and did not properly seek approval or advertise for the land swap.

Recommendation

We recommend that the District implement policies and procedures to ensure that the District complies with Section 37-7-431 concerning School exchanges of property through acquisition or disposition.

School District's Response

We concur with the finding and will attempt to ensure that the District complies with the code requirements regarding exchanging of property in the future.



Wright, Ward, Hatten & Guel, PLLC
Gulfport, Mississippi

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

HARRISON COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Type of Auditors’ Report Issued Unqualified

Internal Control over Financial Reporting:

Material weakness(es) identified No

Significant deficiency(ies) identified not considered to be material weaknesses? Yes

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified not considered to be material weaknesses? Yes

Type of auditors’ report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section .510(a)? Yes

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
CFDA# 10.553	Child Nutrition Cluster
CFDA# 10.555	
CFDA# 10.559	
CFDA# 84.027	Special Education Cluster
CFDA# 84.173	
CFDA# 84.391	
CFDA# 84.394	ARRA - State Fiscal Stabilization Funds
CFDA# 84.010	Title I - Part A Cluster
CFDA# 84.389	
CFDA# 84.410	Education Jobs Fund
CFDA# 84.938	Hurricane Education Recovery Act Programs

Dollar threshold used to distinguish between Type A and Type B programs: \$700,008

Auditee qualified as low risk auditee? No

SECTION II – FINANCIAL STATEMENT FINDINGS

2011-1 Criteria: Procurement procedures and documentation *Significant deficiency*

Proper internal control over the purchasing and accounts payable function require that proper approval is obtained for all items that are purchased by the District that are non-service related and that all purchases have proper adequate support documentation.

Condition: During our audit testing we noted one instance where school board approval was obtained after the work was performed. In another instance the District could not locate board approval for a large purchase where board approval is required. It was also discovered that quote documentation could not be located for a particular expenditure where quotes were required.

Cause: Board approval was not sought prior to awarding of small construction project or purchase of equipment. A former employee of the district was not aware that quotes or bid documentation needed to be maintained for proof of proper procurement procedures.

Effect: This causes the District to be in noncompliance with State procurement laws and incur expenditures that are not properly authorized.

Recommendation: We recommend that the District implement and enforce proper procurement policies so that adequate support documentation is maintained on all purchases within the District and that state procurement laws are adhered to. We also recommend that board approval is sought prior to awarding any construction project as well as the purchase of large items where board approval is required.

2011-2 Criteria: Fixed Asset Management *Significant deficiency*

Proper procedures over fixed assets require an annual inventory to be performed and all items should be properly tagged and identified as District property.

Condition: During our testing of fixed assets, we noted that several large pieces of equipment within the District were not properly tagged and some of these items could not be located on the inventory control report. Some assets had been declared surplus or salvaged by the board but were still showing on the asset inventory sheet a long time after they were declared surplus property. Many fixed assets are moved within the District but not correctly classified as such on the inventory listing. In one instance an inventoriable item was not on school property and in another instance District policy was not adequately enforced regarding lost or stolen property.

Cause: Items are moved within the District or are received and are not communicated to the individuals in charge of fixed asset management so that the fixed asset subsidiary ledgers can be updated correctly.

A District employee had removed an asset item from the classroom, which was later returned to the school.

Effect: This can cause incorrect fixed asset reporting and valuation for financial reporting purposes as well as noncompliance with state laws and regulations regarding fixed asset management.

Recommendation: We recommend that the District implement and enforce better communication among the various departments regarding the movement of District assets and ensure that all fixed assets are properly tagged and identified on the fixed asset subsidiary ledger or inventory listing. It is also imperative that state policy is enforced regarding classroom items and the proper reporting of lost or stolen items.

2011-3 *Criteria:* Activity fund cash management and reporting *Significant deficiency*

Activity fund cash should only be expended in accordance with sound business practices and only for allowed purposes. These funds should also be reported in accordance with State law and all deposits should be made daily.

Condition: During our testing of cash, we noted that some schools within the District were not making timely deposits of the cash received nor were receipts being issued for certain items sold in the various activities. We also noted that some schools had not correctly reported or used certain activity funds.

Cause: The principal of one school did not adhere to the District policy regarding the use, management and reporting of the activity funds. Bookkeepers at other schools were depositing money daily and one was unaware of the requirement of receipts issued for all activity sales.

Effect: This causes the District to be noncompliant with State law regarding the accounting and reporting of activity funds.

Recommendation: We recommend that the District enforce the policies regarding the accounting, reporting and safeguarding of all activity money and ensure that deposits are made daily.

2011-4 *Criteria:* Improper collection of 16th Section revenues and lack of adherence to lease contract terms
State legal noncompliance Section 29-3-57 Miss. Code Ann. (1972) Lease Termination
Significant deficiency

All 16th Section revenues from leases are to be collected within sixty (60) days of payment due date. All contracts on leases should be current and appraisals performed on all property in a timely manner.

Condition: During our testing of 16th Section properties we noted that half of all the properties tested had received rental payments well beyond the sixty (60) day default period, in which it is the duty of the superintendent to declare the lease terminated unless the board of education finds extenuating circumstances were present. We also noted that some of the contracts were expired and others had not had a property appraisal performed in the time period stated in the lease contract.

Cause: Management has not employed a system to verify that all lease payments are remitted to the District timely nor has notification been given to the board to terminate the leases once the default period is expired. All contracts are not periodically reviewed to ensure that the terms of the contract are being adhered to in accordance with contract terms.

Effect: This causes the District to not adequately collect or report the 16th Section revenue to the other shared school districts based on the allocation of students within each district. It also allows lessees to continue to occupy the 16th Section parcel without repercussions for nonpayment.

If appraisals are not performed when stipulated by the contract this also allows the lessee to pay a lease amount that could be much less based on current market appraisals.

Recommendation: We recommend that the District follow state law regarding the collection of 16th Section lease payments and adhere to the terms of the lease contracts.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

2011-5 *Criteria:* Funds Requested in Excess of District Needs

Significant deficiency

Program: ARRA Title I - 84.389

Compliance Requirement: Cash Management

During our testing of the above federally funded grant we noted that the District had requested \$81,794 more than was immediately needed for the month of June 2011.

Cause: Adequate controls were not in place or being used to determine the actual immediate cash need for activities allowed under this program. The amount over requested was used to offset subsequent cash requests for the following three months.

Questioned Costs: There are no questioned costs associated with this finding.

Effect: This has caused the District to be noncompliant with the cash management grant compliance requirement.

Recommendation: We recommend that the District implement policies and procedures to ensure compliance with the cash management requirement for federal program funds which requires the District to minimize the time grant funds are held prior to disbursement.

AUDITEE'S CORRECTIVE ACTION PLAN

Harrison County School District

11072 Highway 49
Gulfport, MS 39503
228-539-6500

Henry A. Arledge
Superintendent

E. Mitchell King
Assistant Superintendent

Auditee's Corrective Action Plan For the Year Ended June 30, 2011

Section 2: Financial Statement Findings

2011-1 Condition: During our testing of purchasing of various expenditures of the District there was an instance where school board approval was obtained after the work was performed. In another instance the District could not locate board approval for a large purchase where board approval is required. It was also discovered that quote documentation could not be located for a particular expenditure where quotes were required

Corrective action: We concur with your recommendation and will be more diligent in enforcing policies and procedures defined by the board policy and State law.

2011-2 Condition: During our testing of fixed assets, we noted that several large pieces of equipment within the District were not properly tagged and some of these items could not be located on the inventory control report. Some assets had been declared surplus or salvaged by the board but were still showing on the asset inventory sheet a long time after they were declared surplus property. Many fixed assets are moved within the District but not correctly classified as such on the inventory listing. In one instance an inventoriable item was not on school property and in another instance District policy was not adequately enforced regarding lost or stolen property.

Corrective action: We concur with your recommendation and will strive for better communication between departments regarding movement of large assets. We will also remind our administrators of their responsibility to enforce school district policy regarding fixed assets.

2011-3 Condition: : During our testing of cash, we noted that some schools within the District were not making timely deposits of the cash received nor were receipts being issued for certain items sold in the various activities. We also noted that some schools had not correctly reported or used certain activity funds.

Corrective action: We concur with your recommendation and will be more diligent in enforcing the policies of the activity funds.

2011-4 Condition: During our testing of 16th Section properties we noted that half of all the properties tested had received rental payments well beyond the sixty (60) day default period, in which it is the duty of the superintendent to declare the lease terminated unless the board of education finds extenuating circumstances were present.

We also noted that some of the contracts were expired and others had not had a property appraisal performed in the time period stated in the lease contract.

Corrective action: We concur with your recommendation and will implement procedures to ensure our compliance with state law.

Section3: Federal Award Findings and Questioned Costs

2011-5 Condition: During our testing of the ARRA Title I CFDA # 84.389 federally funded grant we noted that the District had requested \$81,794 more than was immediately needed for the month of June 2011.

Corrective action: We have adequate procedures in place to ensure reimbursements requested match expenditures. In the situation referred to by this question, the year-end work revealed that our software had allowed payroll spending above budget limitations. We will work with our software vendor to resolve this issue.

Name of contact person responsible for corrective action: Amber Geiser, Business Manager 228-539-6510.

Anticipated completion date: The District expects to accomplish these corrective actions with all subsequent years.

SUMMARY OF PRIOR YEAR AUDIT FINDINGS

Harrison County School District

11072 Highway 49
Gulfport, MS 39503
228-539-6500

Henry A. Arledge
Superintendent

E. Mitchell King
Assistant Superintendent

Summary of Prior Year Audit Findings For the Year Ended June 30, 2011

Finding Number

Prior Audit Finding

10-01

Funds should not be requested in excess of District's needs

CFDA 84.173 Special Education Preschool Grants

Condition

Adequate controls were not in place to ensure that funds drawn down from federal programs were for the District's immediate needs. As a result, it was noted that the District requested federal funds in excess of its immediate needs from the Mississippi Department of Education for Special education-preschool grants for four of the twelve months. The average end of month cash balance for the four months was approximately \$33,078. Before the end of the fiscal year the error was discovered and corrected by management.

Recommendation

We recommend that the District implement policies and procedures to ensure compliance with cash management requirement for federal program funds, which requires the District to minimize the amount of time program funds are held before disbursement. Interest earned on those funds should be properly reported and remitted to the state agency.

Current Status

The District has implemented adequate policies and procedures to ensure compliance with federal programs cash management guidelines.