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HOLMES COUNTY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

Superintendent and School Board
Holmes County School District

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

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

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Holmes County School District, as of June 30, 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 February 8, 2012, on our consideration of the Holmes 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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 supplemental 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 Holmes County School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards and the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds are presented for purposes of additional analysis and are not a required part of the basic 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 basic 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 basic financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Holmes County School District's basic financial statements. The 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.


Cunningham CPAs, PLLC

February 8, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

HOLMES COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2011

The following discussion and analysis of Holmes County School District's financial performance provides an overview 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 are encouraged to review the financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

- Total net assets for 2011 increased \$1,911,158, which represents a 15% increase from fiscal year 2010. Total net assets for 2010 increased \$809,329, which represents a 7% increase from fiscal year 2009.
- General revenues amounted to \$20,639,031 and \$21,190,990, or 68% and 67% 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 \$9,904,862, or 32% of total revenues for 2011, and \$10,392,657, or 33% of total revenues for 2010.
- The District had \$28,632,735 and \$30,774,318 in expenses for fiscal years 2011 and 2010; only \$9,904,862 for 2011 and \$10,392,657 for 2010 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$20,639,031 for 2011 were adequate to provide for these programs and \$21,190,990 for 2010 were adequate to provide for these programs.
- Among major funds, the General Fund had \$17,703,426 in revenues and \$16,868,690 in expenditures for 2011, and \$17,967,340 in revenues and \$18,109,553 in expenditures in 2010. The General Fund's fund balance increased by \$168,944 from 2010 to 2011, and decreased by \$225,307 from 2009 to 2010.
- Capital assets, net of accumulated depreciation, increased by \$171,941 for 2011 and decreased by \$139,394 for 2010. The increase for 2011 was primarily due to construction in progress, net of the increase in accumulated depreciation.
- Long-term debt increased by \$1,510,000 for 2011 and decreased by \$470,000 for 2010. This increase for 2011 was due primarily to the issuance of qualified school construction bonds, net of principal payments on outstanding long-term debt. The liability for compensated absences decreased by \$8,902 for 2011 and decreased by 9,610 for 2010.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the District's basic financial statements, which include government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains required supplemental information, supplemental information, and other information.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader 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.

HOLMES COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

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

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 – Most of the District's general activities are reported in its governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, governmental funds are accounted for using the modified accrual basis of accounting and the flow of current financial resources measurement focus. The approach focuses on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at year end. The governmental fund statements provide a detailed view of the District's near-term financing requirements.

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, the reader may gain a better understanding of the long-term impact of the District's near-term financing decisions. The governmental funds Balance Sheet is reconciled to the Statement of Net Assets, and the governmental funds 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*. Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for all major funds. All 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. These funds are reported using the accrual basis of accounting. 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 summarizes the major differences between the two statements:

HOLMES COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

Capital assets used in governmental activities are not reported on 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 Supplemental Information

In addition to the basic financial statements and accompanying notes, this report also presents budgetary comparison schedules as required supplemental information. The District adopts an annual operating budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund and each major special revenue fund as required by the Governmental Accounting Standards Board.

Supplemental Information

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.

Other Information

Although not a required part of the basic financial statements, 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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets

Net assets may serve over time as a useful indicator of the District's financial position. Assets exceeded liabilities by \$14,857,762 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.

HOLMES COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

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>
Current assets	\$ 8,762,588	\$ 8,175,271	7.18 %
Restricted assets	3,337,879	649,543	413.88 %
Capital assets, net	12,159,564	11,987,623	1.43 %
Total assets	<u>24,260,031</u>	<u>20,812,437</u>	16.57 %
Current liabilities	304,526	269,188	13.13 %
Long-term debt outstanding	9,097,743	7,596,645	19.76 %
Total liabilities	<u>9,402,269</u>	<u>7,865,833</u>	19.53 %
Net assets:			
Invested in capital assets, net of related debt	7,612,202	7,067,623	7.71 %
Restricted	4,822,606	2,422,486	99.08 %
Unrestricted	2,422,954	3,456,495	(29.90) %
Total net assets	<u>\$ 14,857,762</u>	<u>\$ 12,946,604</u>	14.76 %

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

- Increase in net capital assets in the amount of \$171,941.
- The principal retirement of \$690,000 of long-term debt.
- Issuing qualified school construction bonds in the amount of \$2,200,000.

Changes in net assets

The District's total revenues for the fiscal years ended June 30, 2011 and June 30, 2010 were \$30,543,893 and \$31,583,647, respectively. The total cost of all programs and services was \$28,632,735 for 2011 and \$30,774,318 for 2010.

HOLMES COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

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
Changes in Net Assets

	<u>Year Ended</u> <u>June 30, 2011</u>	<u>Year Ended</u> <u>June 30, 2010</u>	<u>Percentage</u> <u>Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 133,942	\$ 264,511	(49.36) %
Operating grants and contributions	9,770,920	8,072,071	21.05 %
Capital grants and contributions	-	2,056,075	(100.00) %
General revenues:			
Property taxes	4,792,890	4,203,267	14.03 %
Grants and contributions not restricted	14,690,101	15,514,019	(5.31) %
Investment earnings	88,407	70,386	25.60 %
Sixteenth section sources	846,998	992,123	(14.63) %
Other	220,635	411,195	(46.34) %
Total revenues	<u>30,543,893</u>	<u>31,583,647</u>	(3.29) %
Expenses:			
Instruction	13,878,684	15,925,576	(12.85) %
Support services	12,018,843	11,709,840	2.64 %
Non-instructional	2,325,157	2,497,752	(6.91) %
Sixteenth section	242,866	84,465	187.53 %
Interest expense and other debt issuance costs	167,185	556,685	(69.97) %
Total expenses	<u>28,632,735</u>	<u>30,774,318</u>	(6.96) %
Increase (Decrease) in net assets	1,911,158	809,329	136.14 %
Net Assets, July 1,	<u>12,946,604</u>	<u>12,137,275</u>	6.67 %
Net Assets, June 30,	<u>\$ 14,857,762</u>	<u>\$ 12,946,604</u>	14.76 %

Governmental activities

The following table presents the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section, and interest and other expenses 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.

HOLMES COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

Table 3
Net Cost of Governmental Activities

	<u>Total Expenses</u>		<u>Percentage Change</u>
	<u>2011</u>	<u>2010</u>	
Instruction	\$ 13,878,684	\$ 15,925,576	(12.85) %
Support services	12,018,843	11,709,840	2.64 %
Non-instructional	2,325,157	2,497,752	(6.91) %
Sixteenth section	242,866	84,465	187.53 %
Interest expense and other debt issuance costs	167,185	556,685	(69.97) %
Total expenses	<u>\$ 28,632,735</u>	<u>\$ 30,774,318</u>	(6.96) %
	<u>Net (Expense) Revenue</u>		<u>Percentage Change</u>
	<u>2011</u>	<u>2010</u>	
Instruction	\$ (10,427,886)	\$ (11,658,194)	(10.55) %
Support services	(8,060,117)	(8,182,856)	(1.50) %
Non-instructional	170,181	10,737	1,485.00 %
Sixteenth section	(242,866)	5,337	(4,650.61) %
Interest expense and other debt issuance costs	(167,185)	(556,685)	(69.97) %
Total net (expense) revenue	<u>\$ (18,727,873)</u>	<u>\$ (20,381,661)</u>	(8.11) %

- Net cost of governmental activities (\$18,727,873 for 2011 and \$20,381,661 for 2010) was financed by general revenue, which is primarily made up of property taxes (\$4,792,890 for 2011 and \$4,203,267 for 2010) and state and federal revenues (\$14,690,101 for 2011 and \$15,514,019 for 2010). In addition, there was \$846,998 and \$992,123 in Sixteenth Section sources for 2011 and 2010, respectively.
- Investment earnings amounted to \$88,407 for 2011 and \$70,386 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 \$11,853,482, an increase of \$3,236,538, which includes an increase in reserve for inventory of \$3,252. \$2,587,508 or 22% of the fund balance is unassigned, which represents the residual classification for the general fund's 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 remaining fund balance of \$9,265,974 or 78% 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.

HOLMES COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

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 \$168,944. The fund balance of Other Governmental Funds showed an increase in the amount of \$622,891, which includes an increase in reserve for inventory of \$3,252, due primarily to normal operations. The increase (decrease) in the fund balances for the other major funds were as follows:

<u>Major Fund</u>	<u>Increase (Decrease)</u>
Title I Fund	No increase or decrease
ARRA – Title I Fund	No increase or decrease
16 th Section Interest Fund	\$ 562,065
QSCB Construction Fund	\$ 1,882,638

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.

A schedule showing the original and final budget amounts compared to the District's actual financial activity for the General Fund and each major special revenue fund 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 \$22,475,206, including land, construction in progress, school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$727,171 from 2010. Total accumulated depreciation as of June 30, 2011, was \$10,315,642, and total depreciation expense for the year was \$681,470, resulting in total net capital assets of \$12,159,564.

Table 4
Capital Assets, Net of Accumulated Depreciation

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Percentage</u> <u>Change</u>
Land	\$ 249,487	\$ 249,487	0.00 %
Construction in progress	708,079	54,860	1,190.70 %
Buildings	8,265,826	8,492,799	(2.67) %
Building improvements	339,810	363,136	(6.42) %
Improvements other than buildings	987,389	1,064,610	(7.25) %
Mobile equipment	1,300,528	1,455,585	(10.65) %
Furniture and equipment	308,445	307,146	0.42 %
Total	\$ 12,159,564	\$ 11,987,623	1.43 %

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

HOLMES COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

Debt Administration. At June 30, 2011, the District had \$9,097,743 in outstanding long-term debt, of which \$685,000 is due within one year. The liability for compensated absences decreased \$8,902 from the prior year.

The District maintains an A+ bond rating.

Table 5
Outstanding Long-Term Debt

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Percentage Change</u>
General obligation bonds payable	\$ 595,000	\$ 825,000	(27.88) %
Limited obligation bonds payable	3,635,000	4,095,000	(11.23) %
Qualified zone academy bonds payable	2,500,000	2,500,000	0.00 %
Qualified school construction bonds payable	2,200,000	-	N/A %
Compensated absences payable	167,743	176,645	(5.04) %
Total	\$ 9,097,743	\$ 7,596,645	19.76 %

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

CURRENT ISSUES

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

The District has committed itself to financial excellence for many years. The District's 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.

Average daily attendance for the 2010-2011 year decreased by 9% to 2,957 students.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

FINANCIAL STATEMENTS

HOLMES COUNTY SCHOOL DISTRICT

Statement of Net Assets
June 30, 2011

Exhibit A

		Governmental Activities
Assets		
Cash and cash equivalents	\$	7,428,802
Due from other governments		1,290,036
Inventories		43,750
Restricted assets		3,337,879
Capital assets, non-depreciable:		
Land		249,487
Construction in progress		708,079
Capital assets, net of accumulated depreciation:		
Buildings		8,265,826
Building improvements		339,810
Improvements other than buildings		987,389
Mobile equipment		1,300,528
Furniture and equipment		308,445
Total Assets		24,260,031
Liabilities		
Accounts payable and acerued liabilities		246,985
Interest payable on long-term liabilities		57,541
Long-term liabilities, due within one year:		
Capital related liabilities		685,000
Long-term liabilities, due beyond one year:		
Capital related liabilities		5,745,000
Non-capital related liabilities		2,667,743
Total Liabilities		9,402,269
Net Assets		
Invested in capital assets, net of related debt		7,612,202
Restricted for:		
Expendable:		
School-based activities		471,657
Debt serviee		881,216
Capital improvements		2,452,660
Forestry improvements		195,063
Unemployment benefits		86,378
Non-expendable:		
Sixteenth section		735,632
Unrestricted		2,422,954
Total Net Assets	\$	14,857,762

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

HOLMES COUNTY SCHOOL DISTRICT

**Statement of Activities
For the Year Ended June 30, 2011**

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction	\$ 13,878,684	82,470	3,368,328	-	(10,427,886)
Support services	12,018,843	-	3,958,726	-	(8,060,117)
Non-instructional	2,325,157	51,472	2,443,866	-	170,181
Sixteenth section	242,866	-	-	-	(242,866)
Interest on long-term liabilities and other debt issuance costs	167,185	-	-	-	(167,185)
Total Governmental Activities	\$ 28,632,735	133,942	9,770,920	-	(18,727,873)
General Revenues:					
Taxes:					
					4,576,337
					216,553
Unrestricted grants and contributions:					
					13,594,103
					1,095,998
					88,407
					846,998
					220,635
					20,639,031
					1,911,158
					12,946,604
					\$ 14,857,762

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

HOLMES COUNTY SCHOOL DISTRICT

Governmental Funds

Exhibit C

Balance Sheet
June 30, 2011

	Major Funds							Total Governmental Funds
	General Fund	Title I Fund	ARRA Title I Fund	Sixteenth Section Interest Fund	QSCB Construction Fund	Other Governmental Funds	Governmental Funds	
Assets								
Cash and cash equivalents	\$ 5,475,946	\$ -	\$ -	\$ 1,362,663	\$ 1,959,172	\$ 1,524,299	\$ 10,322,080	
Cash with fiscal agents	-	-	-	-	-	16,569	16,569	
Investments	-	-	-	-	-	428,032	428,032	
Due from other governments	197,877	387,560	128,701	-	-	564,487	1,278,625	
Due from other funds	718,251	-	-	-	-	113,867	832,118	
Advances	4,050	-	-	-	-	-	4,050	
Inventories	-	-	-	-	-	43,750	43,750	
Total Assets	\$ 6,396,124	\$ 387,560	\$ 128,701	\$ 1,362,663	\$ 1,959,172	\$ 2,691,004	\$ 12,925,224	
Liabilities and Fund Balances								
Liabilities:								
Accounts payable and accrued liabilities	\$ 49,495	\$ -	\$ -	\$ 97,862	\$ 76,534	\$ 23,095	\$ 246,986	
Due to other funds	44,545	387,560	128,701	-	-	263,950	824,756	
Unearned revenue	-	-	-	-	-	-	-	
Total Liabilities	94,040	387,560	128,701	97,862	76,534	287,045	1,071,742	
Fund Balances:								
Nonspendable:								
Advances	4,050	-	-	-	-	-	4,050	
Inventory	-	-	-	-	-	43,750	43,750	
Permanent fund principal	-	-	-	-	-	735,632	735,632	
Restricted:								
Debt service	-	-	-	-	-	938,757	938,757	
Capital projects	2,452,660	-	-	-	1,882,638	-	4,335,298	
Forestry improvement purposes	-	-	-	-	-	195,063	195,063	
Unemployment benefits	-	-	-	-	-	86,378	86,378	
Grant activities	-	-	-	-	-	404,379	404,379	
Committed:								
Working capital	1,234,338	-	-	1,264,801	-	-	2,499,139	
Assigned:								
School based activities	23,528	-	-	-	-	-	23,528	
Unassigned								
Total Fund Balances	2,587,508	-	-	1,264,801	1,882,638	2,403,959	11,853,482	
Total Liabilities and Fund Balances	\$ 6,396,124	\$ 387,560	\$ 128,701	\$ 1,362,663	\$ 1,959,172	\$ 2,691,004	\$ 12,925,224	

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

HOLMES COUNTY SCHOOL DISTRICT

Governmental Funds

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2011

Exhibit C-1

Total fund balances for governmental funds \$ 11,853,482

Amounts reported for governmental activities in the statement of net assets are different because:

1. Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:

Land	\$ 249,487	
Construction in progress	708,079	
Buildings	13,926,873	
Building improvements	583,157	
Improvements other than buildings	1,930,514	
Mobile equipment	3,686,895	
Furniture and equipment	1,390,201	
Accumulated depreciation	<u>(10,315,642)</u>	12,159,564

2. Long-term liabilities and related accrued interest are not due and payable in the current period and therefore are not reported in the funds:

General obligation refunding bonds	(595,000)	
Limited obligation bonds	(3,635,000)	
Qualified zone academy bonds payable	(2,500,000)	
Qualified school construction bonds payable	(2,200,000)	
Compensated absences	(167,743)	
Accrued interest payable	<u>(57,541)</u>	<u>(9,155,284)</u>

Net assets of governmental activities \$ 14,857,762

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

HOLMES COUNTY SCHOOL DISTRICT
Governmental Funds

**Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2011**

Exhibit D

	Major Funds					QSCB Construction Fund	Other Governmental Funds	Total Governmental Funds
	General Fund	Title I Fund	ARRA Title I Fund	Sixteenth Section Interest Fund				
Revenues:								
Local sources	\$ 4,807,367	\$ -	\$ -	\$ -	\$ 8,357	\$ 434,804	\$ 5,250,528	
State sources	12,743,049	-	-	-	-	1,254,396	13,997,445	
Federal sources	1,53,010	3,604,050	705,059	-	-	5,923,226	10,385,345	
Sixteenth section sources	-	-	-	762,954	-	159,367	922,321	
Total Revenues	17,703,426	3,604,050	705,059	762,954	8,357	7,771,793	30,555,639	
Expenditures:								
Instruction	8,781,236	991,477	520,419	-	-	3,409,766	13,702,898	
Support services	7,639,738	2,369,056	180,261	-	-	1,619,438	11,808,493	
Noninstructional services	33,163	243,517	4,379	-	-	2,019,239	2,300,298	
Sixteenth section	-	-	-	213,761	-	29,105	242,866	
Facilities acquisition and construction	285,500	-	-	-	325,719	42,000	653,219	
Debt service:								
Principal	92,015	-	-	-	-	597,985	690,000	
Interest	33,038	-	-	-	-	131,300	164,338	
Other	4,000	-	-	-	-	2,624	6,624	
Total Expenditures	16,868,690	3,604,050	705,059	213,761	325,719	7,851,457	29,568,736	
Excess (Deficiency) of Revenues over (under) Expenditures	834,736	-	-	549,193	(317,362)	(79,664)	986,903	
Other Financing Sources (Uses):								
Bonds and notes issued	-	-	-	-	2,200,000	-	2,200,000	
Insurance loss recoveries	49,145	-	-	-	-	-	49,145	
Other financing sources	-	-	-	6,411	-	-	6,411	
Transfer from QZAB debt service agent	-	-	-	-	-	427,900	427,900	
Operating transfers in	9,821	-	-	6,461	-	1,328,927	1,345,209	
Operating transfers out	(715,585)	-	-	-	-	(629,624)	(1,345,209)	
Payment to QZAB escrow agent	-	-	-	-	-	(427,900)	(427,900)	
Other financing uses	(9,173)	-	-	-	-	-	(9,173)	
Total Other Financing Sources (Uses)	(665,792)	-	-	12,872	2,200,000	699,303	2,246,383	
Net Change in Fund Balances	168,944	-	-	562,065	1,882,638	619,639	3,233,286	
Fund Balances:								
July 1, 2010	6,133,140	-	-	702,736	-	1,781,068	8,616,944	
Increase (decrease) in reserve for inventory	-	-	-	-	-	3,252	3,252	
June 30, 2011	\$ 6,302,084	\$ -	\$ -	\$ 1,264,801	\$ 1,882,638	\$ 2,403,959	\$ 11,853,482	

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

HOLMES COUNTY SCHOOL DISTRICT

Governmental Funds

**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**

Exhibit D-1

Net change in fund balances - total governmental funds \$ 3,233,286

Amounts reported for governmental activities in the statement of activities are different because:

1. Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 862,395	
Depreciation expense	(681,470)	180,925

2. In the statement of activities, only the gain/loss on the sale of assets is reported, while in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the assets sold.

(8,984)

3. The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and the difference between the carrying value of refunded debt and the acquisition cost of refunded debt when debt is first issued. These amounts are deferred and amortized in the statement of activities:

Bonds and notes issued	(2,200,000)	
Payments of debt principal	690,000	
Accrued interest payable	3,777	(1,506,223)

4. Some items reported in the statement of activities do not provide or require the use of current financial resources and therefore are not reported as revenues/expenditures in governmental funds. These activities include:

Change in compensated absences	8,902	
Change in inventory reserve	3,252	12,154

Change in net assets of governmental activities \$ 1,911,158

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

HOLMES COUNTY SCHOOL DISTRICT

Fiduciary Funds

**Statement of Fiduciary Assets and Liabilities
June 30, 2011**

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 1,458,444
Total Assets	<u>\$ 1,458,444</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 1,422,747
Due to student clubs	24,285
Due to other funds	7,362
Advances	4,050
Total Liabilities	<u>\$ 1,458,444</u>

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

HOLMES COUNTY SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2011

Note 1 – Summary of Significant Accounting Policies

The accompanying financial statements of the school district have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting 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 to which each member is elected by the citizens of each defined county district.

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

C. Government-wide and Fund Financial Statements

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

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

HOLMES COUNTY SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2011

segment, are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property 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 and reported in another fund.

Title I Fund - This is the school district's federal reimbursable fund that serves to fund remedial mathematics and reading services to low-income, program eligible students.

ARRA - Title I Fund - This is the school district's federal reimbursable fund that serves to fund remedial mathematics and reading services to low-income, program eligible students, as a result of the Recovery Act.

Sixteenth Section Interest Fund- This fund is used to account for the generation of revenues and expenditures associated with sixteenth section lands that are legally required to be accounted for in the Sixteenth Section Interest Fund. Those revenues and expenditures include, but are not limited to, timber sales, interest on investments, leases, land improvements, purchase of investments and transfers to district maintenance.

Qualified School Construction Fund - This fund accounts for the activities of the construction of a new high school which were financed by Qualified School Construction Bonds.

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

The District's fiduciary funds include the following:

Accounts Payable Clearing Fund - This fund is used to report the accounts payable resources held by the district in a purely custodial capacity (assets equal liabilities) and do not involve measurement of results of operations.

Payroll Clearing Fund - This fund is used to report the payroll resources held by the district in a purely custodial capacity (assets equal liabilities) and do not involve measurement of results of operations.

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

HOLMES COUNTY SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2011

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, Basis of Accounting, and Financial Statement Presentation

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

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

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

Property 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.

HOLMES COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2011

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

E. Encumbrances

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

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

1. Cash, Cash Equivalents and Investments

Cash and cash equivalents

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

Investments

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

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

Investments for the district are reported at fair market value.

2. Receivables and Payables

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 "advances 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

HOLMES COUNTY SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2011

reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

3. Due from Other Governments

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

4. Inventories and Prepaid Items

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

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

5. Restricted Assets

Certain resources set aside for 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 Bond sinking funds. Also, the nonexpendable portion of the Permanent Fund, if applicable, is classified as restricted assets because the 16th Section Principal fund is not available for use by the district except as provided for under state statute for loans from this 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 historical cost based on appraisals or deflated current replacement cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the thresholds in the 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.

HOLMES COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For 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	*	*

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

7. Compensated Absences

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

The liability for these compensated absences is recorded as a long-term liability in the government-wide statements. The current portion of this liability is estimated based on historical trends. In the fund financial statements, governmental funds report the liability for compensated absences 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.

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

HOLMES COUNTY SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2011

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 the 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 the specific purposes pursuant to constraints imposed by a formal action of the School Board, the District's highest level of decision-making authority. Commitments may be changed or lifted only by Board resolution, which imposed the constraint originally.

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 District's management pursuant to authorization established by the District's School Board.

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/expense 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/expenses are incurred for purposes for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the District's general policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

Note 2 – Cash and Cash Equivalents, Cash With Fiscal Agents, and Investments

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

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

Investments. Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to invest excess 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 deposit or 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 other interests in, any 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

HOLMES COUNTY SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2011

exceed twenty percent of invested excess 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. Investment income of 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 \$10,322,080 and \$1,458,444, respectively.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institution's 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 \$12,587,244 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 \$16,569.

Investments

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

<u>Investment Type</u>	<u>Rating</u>	<u>Maturities (in years)</u>	<u>Fair Value</u>
U.S. Government Securities	AAA	1 to 5	\$ 428,032
Total			\$ 428,032

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

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

Custodial Credit Risk - Investments. Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk. As of June 30, 2011, the district did not have any investments to which this would apply.

Concentration of Credit Risk. Disclosure of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2011, the district had the following investments:

HOLMES COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2011

<u>Issuer</u>	<u>Fair Value</u>	<u>% of Total Investments</u>
U.S. Government Securities	\$ 428,032	100%
Total	\$ 428,032	

Note 3 – Inter-fund Receivables, Payables and Transfers

The following is a summary of inter-fund transactions and balances:

A. Due From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Title I fund	\$ 387,560
	ARRA - Title I fund	128,701
	Other governmental funds	194,628
	Fiduciary funds	7,362
Other governmental funds	General fund	44,545
	Other governmental funds	69,322
Total		<u>\$ 832,118</u>

The primary purpose of the interfund receivables and payables are to close out the federal programs at year end.

B. Advances To/From Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Fiduciary funds	\$ 4,050
Total		<u>\$ 4,050</u>

Advances were for cash flow purposes

HOLMES COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2011

C. Inter-fund Transfers

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amount</u>
General fund	Other governmental funds	\$ 715,585
Other governmental funds	General fund	9,821
	Sixteenth section interest fund	6,461
	Other governmental funds	<u>613,342</u>
Total		<u>\$ 1,345,209</u>

The primary purpose of the interfund transfers out of the general fund and into the other governmental funds was to finance basic operations of the district that are not directly funded. The primary reason for the transfer out of the other governmental funds is for the sinking fund payment to the QZAB escrow agent.

Note 4 – Restricted Assets

The restricted assets represent the cash balance totaling \$742,374, of the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs.

In addition, the restricted assets represent the cash balance, totaling \$1,959,172 and \$191,732, of the QSCB construction fund and the QZAB bonds payable fund, respectively.

In addition, the restricted assets represent the cash with fiscal agents balance, totaling \$12,537 and \$4,032, of the MAEP Limited Obligation Bond/Note Fund and the QZAB bonds payable fund, respectively.

In addition, the restricted assets represent the investment balance, totaling \$428,032 of the QZAB bonds payable fund.

HOLMES COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2011

Note 5 – Capital Assets

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

	Balance 7/1/2010	Increases	Decreases	Balance 6/30/2011
Governmental Activities:				
<u>Non-depreciable capital assets:</u>				
Land	\$ 249,487	\$ -	\$ -	\$ 249,487
Construction in progress	54,860	653,219		708,079
Total non-depreciable capital assets	304,347	653,219	-	957,566
<u>Depreciable capital assets:</u>				
Buildings	13,926,873	-	-	13,926,873
Building improvements	583,157	-	-	583,157
Improvement other than buildings	1,930,514	-	-	1,930,514
Mobile equipment	3,617,285	71,275	(1,665)	3,686,895
Furniture and equipment	1,385,859	137,901	(133,559)	1,390,201
Total depreciable capital assets	21,443,688	209,176	(135,224)	21,517,640
<u>Less accumulated depreciation for:</u>				
Buildings	5,434,074	226,973	-	5,661,047
Building improvements	220,021	23,326	-	243,347
Improvement other than buildings	865,904	77,221	-	943,125
Mobile equipment	2,161,700	240,873	(16,206)	2,386,367
Furniture and equipment	1,078,713	113,077	(110,034)	1,081,756
Total accumulated depreciation	9,760,412	681,470	(126,240)	10,315,642
Total depreciable capital assets, net	11,683,276	(472,294)	(8,984)	11,201,998
Governmental activities capital assets, net	\$ 11,987,623	\$ 180,925	\$ (8,984)	\$ 12,159,564

Depreciation expense was charged to the following governmental functions:

	Amount
Governmental activities:	
Instruction	\$ 341,827
Support services	311,532
Non-instructional	28,111
Total depreciation expense - Governmental activities	\$ 681,470

Construction in progress is composed of:

	Spent to June 30, 2011	Remaining Commitment
Governmental Activities:		
Construction of high school	\$ 708,079	\$ 8,382,084
Total	\$ 708,079	\$ 8,382,084

Construction projects included in governmental activities are funded from the QSCB Construction fund and District Maintenance.

HOLMES COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2011

Note 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	Amounts due Within one year
A. General obligation bonds payable	\$ 825,000	-	(230,000)	595,000	210,000
B. Limited obligation bonds payable	4,095,000	-	(460,000)	3,635,000	475,000
C. Qualified zone academy bonds payable	2,500,000	-	-	2,500,000	-
D. Qualified school construction bonds	-	2,200,000	-	2,200,000	-
E. Compensated absences payable	176,645	-	(8,902)	167,743	-
Total	\$ 7,596,645	2,200,000	(698,902)	9,097,743	685,000

A. General obligations bonds payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General obligation bonds, refunding series 2003	1.4-4.4%	7/1/2003	4/15/2016	\$ 2,580,000	\$ 595,000
Total				\$ 2,580,000	\$ 595,000

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

Year Ending June 30	Principal	Interest	Total
2012	\$ 210,000	\$ 24,412	\$ 234,412
2013	205,000	16,422	221,422
2014	60,000	7,920	67,920
2015	60,000	5,280	65,280
2016	60,000	2,640	62,640
Total	\$ 595,000	\$ 56,674	\$ 651,674

This debt will be retired from the District Maintenance Fund and the Buildings and Buses Fund.

The amount of bonded indebtedness that can be incurred by the school district is limited by Sections 37-59-5 and 37-59-7, Miss. Code Ann. (1972). Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in Section 37-59-7, Miss. Code Ann. (1972) have been met. As of June 30, 2011, the amount of outstanding bonded indebtedness was equal to 1% of property assessments as of October 1, 2010.

HOLMES COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2011

B. Limited obligation bonds payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital improvements refunding bonds, series 2009	3.0-4.0%	10/1/2009	2/1/2018	\$ 4,395,000	\$ 3,635,000
Total				\$ 4,395,000	\$ 3,635,000

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

Year Ending June 30	Principal	Interest	Total
2012	\$ 475,000	\$ 117,500	\$ 592,500
2013	490,000	103,250	593,250
2014	500,000	88,550	588,550
2015	515,000	73,550	588,550
2016	535,000	58,100	593,100
2017-2018	1,120,000	64,850	1,184,850
Total	\$3,635,000	\$ 505,800	\$4,140,800

This debt will be retired from the MAEP Bond Issue Fund.

The state aid capital improvement bonds are secured by an irrevocable pledge of certain revenues the district receives from the State of Mississippi pursuant to the Mississippi Accountability and Adequate Education Program Act, Sections 37-151-1 through 37-151-7, Miss. Code Ann. (1972). The state aid capital improvement bonds are not included in the computation of the debt limit percentage.

C. 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.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Qualified zone academy bonds payable	0.00%	7/23/2008	7/15/2020	\$ 2,500,000	\$ 2,500,000
Total				\$ 2,500,000	\$ 2,500,000

HOLMES COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2011

D. 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
Qualified school construction bonds payable	0.40%	12/17/2010	12/1/2025	\$ 2,200,000	\$2,200,000
Total				<u>\$ 2,200,000</u>	<u>\$2,200,000</u>

E. Compensated absences payable.

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

Note 7 – 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	\$ 381,956
2013	362,925
2014	257,845
2015	146,613
2016	1,387
2017-2021	6,435
2022-2026	6,435
2027-2031	5,610
Thereafter	18,279
Total	<u>\$ 1,187,485</u>

Note 8 – 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

HOLMES COUNTY SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2011

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 9.00% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate for fiscal year ended June 30, 2011 was 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 \$1,793,316, \$1,967,223 and \$1,847,314, respectively, which equaled the required contributions for each year.

Note 9 – Contingencies

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

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

Note 10 – Risk Management

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

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 the members' employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Wells Fargo in Portland, Oregon. The funds in the trust account are used to pay any claim up to \$750,000. For a claim exceeding \$750,000, MSBAWCT has insurance which will pay the excess to the statutory amount required by the Mississippi Workers' Compensation Commission Act. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

Note 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 at 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. The school district, in agreement with Hancock Bank, has entered into such an arrangement dated July 23, 2008.

This agreement establishes a method of repayment for a qualified interest-free debt instrument. The agreement requires the school district to deposit funds annually into a sinking fund account on or before July 22nd of each year.

HOLMES COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2011

The amount on deposit at June 30, 2011 was \$432,064. The amount accumulated in the sinking fund at the end of the ten-year period will be sufficient to retire the debt. The following schedule reports the annual deposits to be made to the sinking fund by the school district.

<u>Year Ending June 30</u>	<u>Amount</u>
2012	\$ 210,000
2013	210,000
2014	150,000
2015	150,000
2016	150,000
2017-2021	727,000
Total	<u>\$ 1,597,000</u>

Note 12 – Qualified School Construction Bonds

Section 1521 of the American Recovery and Reinvestment Act (ARRA) of 2010 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 pay off 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. There was \$1,959,172 of unspent bond proceeds at June 30, 2011. The district was not required to make a sinking fund deposit for the year ended June 30, 2011. The amount accumulated in the sinking fund at the end of the seventeen-year period will be sufficient to retire the debt. The following schedule reports the annual deposits to be made to the sinking fund by the school district.

<u>Year Ending June 30</u>	<u>Amount</u>
2017	\$ 50,000
2018	50,000
2019	186,000
2020	186,000
2021	186,000
2022-2026	1,542,000
Total	<u>\$ 2,200,000</u>

HOLMES COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2011

Note 13 –Insurance Loss Recoveries

The Holmes County School District received \$49,145 in insurance loss recoveries related to storm damage during the 2010-2011 fiscal year. In the government-wide Statement of Activities, the insurance loss recoveries were offset against instructional expenses.

REQUIRED SUPPLEMENTAL INFORMATION

HOLMES COUNTY SCHOOL DISTRICT

Required Supplemental Information

Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2011

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 3,800,428	\$ 4,807,238	\$ 4,807,367	\$ 1,006,810	\$ 129
State sources	11,595,350	12,779,256	12,743,049	1,183,906	(36,207)
Federal sources	125,000	153,010	153,010	28,010	-
Total Revenues	15,520,778	17,739,504	17,703,426	2,218,726	(36,078)
Expenditures:					
Instruction	10,886,952	8,823,302	8,781,236	2,063,650	42,066
Support services	8,374,041	7,886,892	7,639,738	487,149	247,154
Noninstructional services	36,914	33,160	33,163	3,754	(3)
Facilities acquisition and construction	-	-	285,500	-	(285,500)
Debt service:					
Principal	125,054	125,053	92,015	1	33,038
Interest	-	-	33,038	-	(33,038)
Other	3,000	4,000	4,000	(1,000)	-
Total Expenditures	19,425,961	16,872,407	16,868,690	2,553,554	3,717
Excess (Deficiency) of Revenues over (under) Expenditures	(3,905,183)	867,097	834,736	4,772,280	(32,361)
Other Financing Sources (Uses):					
Insurance loss recoveries	-	49,145	49,145	49,145	-
Operating transfers in	5,256,057	1,819,725	9,821	(3,436,332)	(1,809,904)
Other financing uses	-	-	(9,173)	-	(9,173)
Operating transfers out	(5,800,000)	(2,493,310)	(715,585)	3,306,690	1,777,725
Total Other Financing Sources (Uses)	(543,943)	(624,440)	(665,792)	(80,497)	(41,352)
Net Change in Fund Balances	(4,449,126)	242,657	168,944	4,691,783	(73,713)
Fund Balances:					
July 1, 2010	6,133,140	6,133,140	6,133,140	-	-
June 30, 2011	\$ 1,684,014	\$ 6,375,797	\$ 6,302,084	\$ 4,691,783	\$ (73,713)

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

HOLMES COUNTY SCHOOL DISTRICT

Required Supplemental Information

**Budgetary Comparison Schedule
Title I Fund
For the Year Ended June 30, 2011**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 3,402,630	\$ 4,820,443	\$ 3,604,050	\$ 1,417,813	\$ (1,216,393)
Total Revenues	<u>3,402,630</u>	<u>4,820,443</u>	<u>3,604,050</u>	<u>1,417,813</u>	<u>(1,216,393)</u>
Expenditures:					
Instruction	1,570,982	1,573,137	991,477	(2,155)	581,660
Support services	1,632,643	2,889,985	2,369,056	(1,257,342)	520,929
Noninstructional services	191,505	319,321	243,517	(127,816)	75,804
Total Expenditures	<u>3,395,130</u>	<u>4,782,443</u>	<u>3,604,050</u>	<u>(1,387,313)</u>	<u>1,178,393</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>7,500</u>	<u>38,000</u>	<u>-</u>	<u>30,500</u>	<u>(38,000)</u>
Other Financing Sources (Uses):					
Operating transfers out	(7,500)	(38,000)	-	(30,500)	38,000
Total Other Financing Sources (Uses)	<u>(7,500)</u>	<u>(38,000)</u>	<u>-</u>	<u>(30,500)</u>	<u>38,000</u>
Net Change in Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:					
July 1, 2010	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
June 30, 2011	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

HOLMES COUNTY SCHOOL DISTRICT

Required Supplemental Information

**Budgetary Comparison Schedule
ARRA Title I Fund
For the Year Ended June 30, 2011**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 970,645	\$ 1,131,113	\$ 705,059	\$ 160,468	\$ (426,054)
Total Revenues	<u>970,645</u>	<u>1,131,113</u>	<u>705,059</u>	<u>160,468</u>	<u>(426,054)</u>
Expenditures:					
Instruction	788,807	850,799	520,419	(61,992)	330,380
Support services	172,124	257,392	180,261	(85,268)	77,131
Noninstructional services	<u>9,714</u>	<u>21,577</u>	<u>4,379</u>	<u>(11,863)</u>	<u>17,198</u>
Total Expenditures	<u>970,645</u>	<u>1,129,768</u>	<u>705,059</u>	<u>(159,123)</u>	<u>424,709</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>-</u>	<u>1,345</u>	<u>-</u>	<u>1,345</u>	<u>(1,345)</u>
Net Change in Fund Balances	<u>-</u>	<u>1,345</u>	<u>-</u>	<u>1,345</u>	<u>(1,345)</u>
Fund Balances:					
July 1, 2010	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
June 30, 2011	<u>\$ -</u>	<u>\$ 1,345</u>	<u>\$ -</u>	<u>\$ 1,345</u>	<u>\$ (1,345)</u>

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

HOLMES COUNTY SCHOOL DISTRICT

Required Supplemental Information

**Budgetary Comparison Schedule
Sixteenth Section Interest Fund
For the Year Ended June 30, 2011**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Sixteenth section sources	\$ 437,800	\$ 762,954	\$ 762,954	\$ 325,154	\$ -
Total Revenues	<u>437,800</u>	<u>762,954</u>	<u>762,954</u>	<u>325,154</u>	<u>-</u>
Expenditures:					
Sixteenth section	34,360	143,932	213,761	(109,572)	(69,829)
Total Expenditures	<u>34,360</u>	<u>143,932</u>	<u>213,761</u>	<u>(109,572)</u>	<u>(69,829)</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>403,440</u>	<u>619,022</u>	<u>549,193</u>	<u>215,582</u>	<u>(69,829)</u>
Other Financing Sources (Uses):					
Operating transfers in	3,000	6,461	6,461	3,461	-
Other financing sources	-	-	6,411	-	6,411
Operating transfers out	(600,000)	-	-	600,000	-
Total Other Financing Sources (Uses)	<u>(597,000)</u>	<u>6,461</u>	<u>12,872</u>	<u>603,461</u>	<u>6,411</u>
Net Change in Fund Balances	<u>(193,560)</u>	<u>625,483</u>	<u>562,065</u>	<u>819,043</u>	<u>(63,418)</u>
Fund Balances:					
July 1, 2010	<u>702,736</u>	<u>702,736</u>	<u>702,736</u>	<u>-</u>	<u>-</u>
June 30, 2011	<u>\$ 509,176</u>	<u>\$ 1,328,219</u>	<u>\$ 1,264,801</u>	<u>\$ 819,043</u>	<u>\$ (63,418)</u>

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

HOLMES COUNTY SCHOOL DISTRICT

Notes to the Required Supplemental Information
For the Year Ended June 30, 2011

Budgetary Comparison Schedule

(1) Basis of Presentation

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

(2) Budget Amendments and Revisions

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

SUPPLEMENTAL INFORMATION

HOLMES COUNTY SCHOOL DISTRICT

Supplemental Information

**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 No.	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	\$ 665,491
National school lunch program	10.555	1,375,002
Summer food service program for children	10.559	69,465
Total child nutrition cluster		<u>2,109,958</u>
Total passed-through Mississippi Department of Education		<u>2,109,958</u>
Total U.S. Department of Agriculture		<u>2,109,958</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	146,938
Total Federal Communications Commission		<u>146,938</u>
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Career and technical education - basic grants to states	84.048	35,186
Safe and drug-free schools and communities - state grants	84.186	27,984
Special Education - State personnel development grants	84.323	2,161
Rural education	84.358	78,068
Improving teacher quality state grants	84.367	497,336
School improvement grants	84.377	54,825
Education jobs fund	84.410	708,701
Subtotal		<u>1,404,261</u>
Title I cluster:		
Title I grants to local educational agencies	84.010	3,846,933
ARRA - Title I grants to local educational agencies, Recovery Act	84.389	705,059
Total Title I cluster		<u>4,551,992</u>
Special education cluster:		
Special education - grants to states	84.027	654,304
Special education - preschool grants	84.173	28,105
ARRA - Special education grants to states, Recovery Act	84.391	313,851
ARRA - Special education preschool grants, Recovery Act	84.392	13,629
Total special education cluster		<u>1,009,889</u>

HOLMES COUNTY SCHOOL DISTRICT

Supplemental Information

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011**

<u>Federal Grantor/ Pass-through Grantor/ Program Title</u>	<u>Catalog of Federal Domestic Assistance No.</u>	<u>Federal Expenditures</u>
ARRA - State Fiscal Stabilization Fund - Education state grants, Recovery Act	84.394	<u>949,060</u>
Total State Fiscal Stabilization Fund cluster		<u>949,060</u>
Total passed-through Mississippi Department of Education		<u>7,915,202</u>
Total U.S. Department of Education		<u>7,915,202</u>
 Total for All Federal Awards		 <u>\$ 10,172,098</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.

HOLMES COUNTY SCHOOL DISTRICT

Supplemental Information

**Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
For the Year Ended June 30, 2011**

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other Student Instructional Expenditures</u>	<u>General Administration</u>	<u>School Administration</u>	<u>Other</u>
Salaries and fringe benefits	\$ 21,292,557	15,805,298	931,447	1,298,437	3,257,375
Other	8,276,179	2,725,466	366,405	12,809	5,171,499
Total	\$ 29,568,736	18,530,764	1,297,852	1,311,246	8,428,874
Total number of students *	2,957				
Cost per student	\$ 10,000	6,268	439	443	2,850

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.

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

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

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

* 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

HOLMES COUNTY SCHOOL DISTRICT

Other Information

Statement of Revenues, Expenditures and Changes in Fund Balances

**General Fund
Last Four Years
UNAUDITED**

	2011	2010*	2009*	2008*
Revenues:				
Local sources	\$ 4,807,367	\$ 4,549,159	\$ 4,396,320	\$ 3,904,685
State sources	12,743,049	13,215,583	15,138,732	15,567,046
Federal sources	153,010	202,598	92,843	81,211
Total Revenues	17,703,426	17,967,340	19,627,895	19,552,942
Expenditures:				
Instruction	8,781,236	9,739,819	11,345,982	10,968,245
Support services	7,639,738	8,060,490	8,722,528	8,235,308
Noninstructional services	33,163	35,167	40,811	24,302
Facilities acquisition and construction	285,500	56,424	192,177	-
Debt service:				
Principal	92,015	122,015	122,012	127,015
Interest	33,038	42,138	50,588	58,405
Other	4,000	53,500	2,500	2,500
Total Expenditures	16,868,690	18,109,553	20,476,598	19,415,775
Excess (Deficiency) of Revenues over (under) Expenditures	834,736	(142,213)	(848,703)	137,167
Other Financing Sources (Uses):				
Insurance recoveries	49,145	-	-	13,995
Operating transfers in	9,821	624,645	683,256	20,572
Operating transfers out	(715,585)	(705,439)	(985,047)	(479,764)
Other financing uses	(9,173)	(2,300)	(195)	-
Total Other Financing Sources (Uses)	(665,792)	(83,094)	(301,986)	(445,197)
Net Change in Fund Balances	168,944	(225,307)	(1,150,689)	(308,030)
Fund Balances:				
Beginning of period	6,133,140	6,358,447	7,509,136	7,817,166
End of Period	\$ 6,302,084	\$ 6,133,140	\$ 6,358,447	\$ 7,509,136

*SOURCE - PRIOR YEAR AUDIT REPORTS

HOLMES COUNTY SCHOOL DISTRICT

Other Information

Statement of Revenues, Expenditures and Changes in Fund Balances

All Governmental Funds

Last Four Years

UNAUDITED

	2011	2010*	2009*	2008*
Revenues:				
Local sources	\$ 5,250,528	\$ 4,859,557	\$ 4,570,253	\$ 4,068,979
State sources	13,997,445	14,875,557	17,086,674	16,937,471
Federal sources	10,385,345	10,766,608	7,772,985	7,183,847
Sixteenth section sources	922,321	1,081,925	545,985	637,966
Total Revenues	30,555,639	31,583,647	29,975,897	28,828,263
Expenditures:				
Instruction	13,702,898	15,432,973	15,105,359	13,998,291
Support services	11,808,493	12,085,351	14,948,131	12,207,677
Noninstructional services	2,300,298	2,435,313	2,434,143	2,432,453
Sixteenth section	242,866	84,465	82,318	92,686
Facilities acquisition and construction	653,219	56,424	192,177	-
Debt service:				
Principal	690,000	560,000	640,000	760,000
Interest	164,338	88,905	265,833	293,473
Other	6,624	468,288	62,506	5,164
Total Expenditures	29,568,736	31,211,719	33,730,467	29,789,744
Excess (Deficiency) of Revenues over (under) Expenditures	986,903	371,928	(3,754,570)	(961,481)
Other Financing Sources (Uses):				
Refunding bonds issued	-	4,395,000	-	-
Bonds and notes issues	2,200,000	-	2,500,000	13,995
Insurance loss recoveries	49,145	-	-	-
Operating transfers in	1,345,209	1,347,803	1,716,024	1,527,822
Other financing sources	6,411	-	-	-
Transfer from QZAB debt service agent	427,900	-	-	-
Operating transfers out	(1,345,209)	(1,347,803)	(1,716,024)	(1,527,822)
Other financing uses	(9,173)	(2,300)	(195)	-
Payment to QZAB escrow agent	(427,900)	-	-	-
Payment to refunded bond escrow agent	-	(4,305,000)	-	-
Total Other Financing Sources (Uses)	2,246,383	87,700	2,499,805	13,995
Net Change in Fund Balances	3,233,286	459,628	(1,254,765)	(947,486)
Fund Balances:				
Beginning of period	8,616,944	8,148,339	9,417,405	10,381,908
Increase (Decrease) in reserve for inventory	3,252	8,977	(14,301)	(17,017)
End of Period	\$ 11,853,482	\$ 8,616,944	\$ 8,148,339	\$ 9,417,405

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

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

Superintendent and School Board
Holmes County School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Holmes County School District as of and for the year ended June 30, 2011, and have issued our report thereon dated February 8, 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

Management of Holmes County School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Holmes 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 Holmes County School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Holmes County School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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 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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness. [Finding 2011-01]

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Holmes 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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



Cunningham CPAs, PLLC

February 8, 2012

CUNNINGHAM CPAs, PLLC

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

Superintendent and School Board
Holmes County School District

Compliance

We have audited Holmes 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 Holmes County School District's major federal programs for the year ended June 30, 2011. Holmes 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 Holmes County School District's management. Our responsibility is to express an opinion on Holmes 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 Holmes 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 Holmes County School District's compliance with those requirements.

In our opinion, Holmes 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.

Internal Control Over Compliance

Management of Holmes 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 Holmes 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 Holmes 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.

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



Cunningham CPAs, PLLC

February 8, 2012

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

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

Superintendent and School Board
Holmes County School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Holmes County School District as of and for the year ended June 30, 2011, which collectively comprise Holmes County School District's basic financial statements and have issued our report thereon dated February 8, 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.

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 \$21,666 of classroom supply funds carried over from previous years.

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

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

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

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements did not disclose any instances of noncompliance with other state laws and regulations.

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


Cunningham CPAs, PLLC

February 8, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

HOLMES COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011

Section 1: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|--|---------------|
| 1. | Type of auditor's report issued on the financial statements: | Unqualified |
| 2. | Internal control over financial reporting: | |
| | a. Material weakness(es) identified? | Yes |
| | b. Significant deficiency(ies) identified? | None reported |
| 3. | Noncompliance material to the financial statements noted? | No |

Federal Awards:

- | | | |
|----|--|---------------|
| 4. | Internal control over major programs: | |
| | a. Material weakness(es) identified? | No |
| | b. Significant deficiency(ies) identified? | None reported |
| 5. | Type of auditor's report issued on compliance for major programs: | Unqualified |
| 6. | Any audit finding(s) disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? | No |
| 7. | Identification of major programs: | |
| | A. Title I - Grants to local educational agencies: | |
| | CFDA # | 84.010 |
| | CFDA # | 84.389 |
| | B. ARRA - State Fiscal Stabilization - Education State Grants, Recovery Act | |
| | CFDA # | 84.394 |
| | C. Special Education Cluster: | |
| | CFDA # | 84.027 |
| | CFDA # | 84.173 |
| | CFDA # | 84.391 |
| | CFDA # | 84.392 |
| | D. Child Nutrition Cluster: | |
| | CFDA # | 10.553 |
| | CFDA # | 10.555 |
| | CFDA # | 10.559 |
| | E. Improving teacher quality - state grants | |
| | CFDA # | 84.367 |
| | F. Education jobs fund | |
| | CFDA # | 84.410 |
| 8. | Dollar threshold used to distinguish between type A and type B programs: | \$ 305,163 |
| 9. | Auditee qualified as a low-risk auditee? | No |

HOLMES COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011

Section II: Financial Statement Findings

Significant Deficiency Considered to Be a Material Weakness

2011-01 Controls Surrounding Accounts Payable and Other Expenditures

Finding

An effective system of internal controls should provide for proper recording of accounts payable and other expenditures. We found that certain expenditures and claims payable were not properly recorded by the district. Lack of controls surrounding the proper accrual of claims payable could cause the district's financial statements to be misstated.

Recommendation

The district should have a system implemented to ensure proper recording of claims payable and related expenditures.

Section III: Federal Award Findings and Questioned Costs

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

HOLMES COUNTY SCHOOL DISTRICT

P.O. BOX 630
LEXINGTON, MISSISSIPPI 39095
Powell Rucker - Superintendent
Katy Sample - Business Manager

AUDITEE'S CORRECTIVE ACTION PLAN

As required by Section .315(c) of OMB Circular A-133, the Holmes County School District has prepared and hereby submits the following corrective action plan for the finding included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2011:

<u>Finding</u>	<u>Correction Action Plan Details</u>
2011-01	<p>a. Name of Contact Person Responsible for Corrective Action: Kathy Sample, Business Manager, 662-834-2175</p> <p>b. Corrective Action Planned: The District will have a system implemented to ensure proper recording of claims payable and related expenditures.</p> <p>c. Anticipated Completion Date: June 30, 2012</p>