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HATTIESBURG PUBLIC SCHOOL DISTRICT

**Audited Financial Statements
For the Year Ended June 30, 2005**

HATTIESBURG PUBLIC SCHOOL DISTRICT
Audited Financial Statements
For the Year Ended June 30, 2005

TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditor's Report	1 - 2
Management's Discussion and Analysis	4-11
<i>Government-Wide Financial Statements:</i>	
Statement of Net Assets (Exhibit A)	13
Statement of Activities (Exhibit B)	14
<i>Fund Financial Statements:</i>	
<u>Governmental Funds:</u>	
Balance Sheet (Exhibit C)	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets (Exhibit C-1)	17
Statement of Revenues, Expenditures, and Changes in Fund Balance (Exhibit D)	18
Reconciliation of the Governmental Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities (Exhibit D-1)	19
<u>Fiduciary Funds:</u>	
Statement of Net Assets (Exhibit E)	20
Notes to Financial Statements	21-38
<i>Required Supplementary Information (RSI) (Other than MD&A):</i>	
Budgetary Comparison Schedule - General Fund (Schedule 1)	40
Budgetary Comparison Schedule – Title I (Schedule 2)	41
Notes to the Required Supplementary Information	42

HATTIESBURG PUBLIC SCHOOL DISTRICT
Audited Financial Statements
For the Year Ended June 30, 2005

TABLE OF CONTENTS
- CONTINUED -

	<u>Page No.</u>
<i>Supplemental Information:</i>	
Schedule of Expenditures of Federal Awards	44-45
Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds	46
<i>Reports on Compliance and Internal Control:</i>	
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 <i>Government Auditing Standards</i>	48-49
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	50-51
Independent Auditor's Report on Compliance with State Laws and Regulations	53-55
<i>Other Supplemental Information:</i>	
Schedule of Findings and Questioned Costs	57-58
Auditee's Corrective Action Plan and Schedule of Prior Audit Findings	60-61

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INDEPENDENT AUDITOR'S REPORT

November 7, 2005

Superintendent and School Board
Hattiesburg Public School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Hattiesburg Public School District, as of and for the year ended June 30, 2005, which collectively comprise the school's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Hattiesburg Public School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the remaining fund information of the Hattiesburg Public School District, as of June 30, 2005, and the respective changes in financial position 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 November 7, 2005, on our consideration of the Hattiesburg Public School District internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 4 through 11 and Budgetary Comparison Schedules and corresponding notes on pages 39 through 41 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Holt & Associates, PLLC

Holt & Associates

November 7, 2005

HATTIESBURG PUBLIC SCHOOL DISTRICT

**Management's Discussion and Analysis
For the Year Ended June 30, 2005**

**HATTIESBURG PUBLIC SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

The discussion and analysis of Hattiesburg Public School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this District's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the District's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

FINANCIAL HIGHLIGHTS

- Total net assets increased \$1,879,482, which represents an increase of 26.7%
- General revenues account for \$31,359,000, or 75.8% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$9,998,521 or 24.2% of total revenues.
- Expenses amounted to \$39,478,039; only \$9,998,521 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$31,359,000 were adequate to provide for these programs.
- Among major funds, the General Fund had \$30,353,955 in revenues and \$29,236,317 in expenditures. The General Fund's fund balance increased \$661,672 over the prior year. Most of this increase resulted from higher than expected local tax collections, and lower than expected non-salary expenditures.
- Capital assets, net of accumulated depreciation, increased by \$208,406.
- Long-term debt decreased by \$378,070. The decrease was due to principal payments made during the fiscal year on existing debt.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

**HATTIESBURG PUBLIC SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

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

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

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

The government-wide financial statements can be found on pages 13-14 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 17 and 19, respectively.

**HATTIESBURG PUBLIC SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School Districts* issued by the Mississippi Office of the State Auditor. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for all major funds. All other non-major funds are combined together and presented in these reports as other governmental funds. The basic governmental fund financial statements can be found on pages 16 - 19 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The School District's fiduciary activities are presented in separate Statements of Fiduciary Net Assets on page 20.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21-38 of this report.

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major special revenue fund. This required supplementary information can be found on pages 40-42 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on pages 44-45 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$8,908,678 as of June 30, 2005 and \$7,029,196 as of June 30, 2004.

The District's net assets at June 30, 2005 comprise its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment), less any related debt used to acquire those assets that is still outstanding, restricted net assets, and unrestricted net assets. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

**HATTIESBURG PUBLIC SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

The restricted net assets of \$4,370,685 or 49% for 2005 and \$3,974,264 or 57% for 2004 are restricted to expenditures for certain school based activities, debt service, unemployment benefits, and 16th section investment purposes. The remaining portion of the net assets, or unrestricted net assets, is available for school expenditures. The District's financial position is a product of several financial transactions including the net result of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets and the depreciation of capital assets.

The following table presents a summary of the District's net assets for the fiscal years ended June 30, 2005 and 2004.

	<u>2005</u>	<u>2004</u>
Current assets	\$ 10,263,673	\$ 8,808,449
Capital assets, net	<u>26,259,346</u>	<u>26,050,940</u>
Total assets	\$ 36,523,019	\$ 34,859,389
Current liabilities	\$ 2,639,617	\$ 2,154,833
Long-term debt outstanding	<u>24,974,724</u>	<u>25,675,360</u>
Total liabilities	\$ 27,614,341	\$ 27,830,193
Net assets:		
Invested in capital assets, net of related debt	\$ 4,059,358	\$ (100,989)
Restricted	4,370,685	3,974,264
Unrestricted	<u>478,635</u>	<u>3,155,921</u>
Total net assets	\$ 8,908,678	\$ 7,029,196

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

- The principal retirement of \$1,637,003 (net of \$765,000 refunding) of long term debt.
- The addition of \$350,000 Three-Mill notes for capital improvement and the inception of \$885,591 capital leases.
- The addition of \$1,161,092 in capital assets, primarily from the capital leases.

Changes in net assets. The District's total revenues for the fiscal year ended June 20, 2005 and 2004 were \$41,357,521 and \$40,408,681, respectively. The total cost of all programs and services was \$39,478,039 in 2005 and \$40,897,942 in 2004. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2005 and 2004.

**HATTIESBURG PUBLIC SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

Revenues:	<u>2005</u>	<u>2004</u>
Program revenues	\$ 9,998,521	\$ 8,824,590
General revenues	<u>31,359,000</u>	<u>31,584,091</u>
Total revenues	<u>41,357,521</u>	<u>40,408,681</u>
Expenses:		
Instruction	22,327,571	22,265,393
Support services	13,295,323	14,567,517
Non-instructional	2,619,914	2,832,409
Sixteenth section	24,195	21,738
Interest on long-term liabilities	<u>1,211,036</u>	<u>1,242,385</u>
Total expenses	<u>39,478,039</u>	<u>40,929,442</u>
Increase (decrease) in net assets	<u>\$ 1,879,482</u>	<u>\$ (520,761)</u>

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

	<u>2005</u>		<u>2004</u>	
	<u>Total Expense</u>	<u>Net (Expense) Revenue</u>	<u>Total Expense</u>	<u>Net (Expense) Revenue</u>
Instruction	\$ 22,327,271	\$ (17,609,670)	\$ 22,265,393	\$ (17,960,363)
Support services	13,295,323	(10,417,829)	14,567,517	(12,373,915)
Non-instructional	2,619,914	(216,788)	2,832,409	(506,451)
Sixteenth section	24,195	(24,195)	21,738	(21,738)
Interest on long-term Liabilities	<u>1,211,036</u>	<u>(1,211,036)</u>	<u>1,242,385</u>	<u>(1,242,385)</u>
Total Expenses	<u>\$ 39,477,739</u>	<u>\$ (29,479,518)</u>	<u>\$ 40,929,442</u>	<u>\$ (32,104,852)</u>

- Net cost of governmental activities in 2005 was (\$29,479,518) and in 2004 (\$32,104,852) financed by general revenue, which is made up of primarily property taxes in 2005 and 2004 of \$13,789,135 and \$13,559,550, respectively, and state revenue of \$18,649,398 in 2005 and \$17,317,707 in 2004.

**HATTIESBURG PUBLIC SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$9,764,867, an increase of \$1,286,539 due primarily to actual revenues in excess of expenditures in the general fund and other funds, as well as debt proceeds unexpended at year end. Of the fund balance, \$9,611,965 or 98% constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion, with the exception of \$2,907,587 of 16th section principal funds. These funds are permanent funds and are reported in the unreserved an undesignated section of the balance sheet but are available for investment purposes only. The remaining fund balance of \$152,902 or 2% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$661,672 a result of the increased collections of local ad valorem taxes and lower than expected expenditures. The fund balance of Other Governmental Funds showed an increase of \$621,828.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget. Significant items related to budgetary revisions to the District's General Fund are presented as follows:

- Budget amounts for revenue from local sources were increased primarily to record additional amounts received for local ad valorem taxes and interest income.
- Budget amounts for expenditures in the instruction function were increased primarily to record projected additional costs in salaries, wages, and related employee benefits.
- Budget amounts for expenditures in the support services function were decreased primarily to record expected reductions in costs for salaries, wages, related employee benefits, purchased services, commodities, and equipment.

**HATTIESBURG PUBLIC SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. The District's total capital assets as of June 30, 2005 were \$39,267,027 including school buildings, busses, other school vehicles and furniture and equipment. This amount represents an increase of \$832,822 from the previous year, due primarily to the inception of capital leases for computer equipment. Total accumulated depreciation as of June 30, 2005 was \$13,007,681 and total depreciation expense for the year was \$922,937 resulting in total net assets of \$26,259,346.

Additional information of the District's capital assets can be found in Note 5 on pages 29-30 of this report.

Debt Administration. At June 30, 2005, the District had \$26,793,342 in general and limited obligation bonds and other long-term debt outstanding, of which \$1,818,618 is due within one year. During the fiscal year, the District refunded \$765,000 in certificates of participation for \$768,000, issued \$350,000 in Limited Tax Notes (3-mill notes), and acquired assets under capital leases for \$885,591.

The District maintains an A2 bond rating (Moody's).

Additional information of the District's long-term debt can be found in Note 6 on pages 30-35 of this report.

CURRENT ISSUES

The Hattiesburg Public School District is financially stable. The District receives enthusiastic community support for the public schools from the government and citizens of the City of Hattiesburg.

The District has committed itself to financial excellence for many years. The local ad valorem millage rate is at the maximum allowed under state law, which are 58.30 mills for Hattiesburg Public School District operations and an additional 7.34 mills for debt service. The District's system of financial planning, budgeting and internal financial controls are administered by experienced and dedicated professionals. The District plans to continue its sound fiscal management to meet the challenges of the future.

**HATTIESBURG PUBLIC SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Hattiesburg Public School District, 301 Mamie Street, Hattiesburg, MS 39401, phone (601) 582-5078.

HATTIESBURG PUBLIC SCHOOL DISTRICT

Government-Wide Financial Statements

HATTIESBURG PUBLIC SCHOOL DISTRICT
Statement of Net Assets
June 30, 2005

Exhibit A

Governmental
Activities

ASSETS

Cash and cash equivalents	\$	4,909,945
Cash with Fiscal Agents		238,574
Due from other governments		1,681,872
Other receivables		23,625
Inventories and prepaid items		152,902
Restricted assets		3,256,755
Capital assets, net		<u>26,259,346</u>
Total Assets	\$	<u>36,523,019</u>

LIABILITIES AND FUND BALANCES

Liabilities:		
Accounts payable and accrued liabilities	\$	498,806
Accrued Interest		322,193
Long-term liabilities (Due within one year)		
Capital related liabilities		1,650,168
Non-capital related liabilities		168,450
Long-term liabilities (Due beyond one year)		
Capital related liabilities		20,693,083
Non-capital related liabilities		<u>4,281,641</u>
Total Liabilities	\$	<u>27,614,341</u>

NET ASSETS

Investment in capital assets (net of related debt)	\$	4,059,358
Restricted net assets:		
Expendable:		
School-Based Activities		812,289
Debt Service		336,146
Capital Improvements		144,545
Unemployment Benefits		170,118
Nonexpendable:		
Sixteenth Section		2,907,587
Unrestricted:		<u>478,635</u>
Total Net Assets	\$	<u>8,908,678</u>

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

HATTIESBURG PUBLIC SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2005

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and
					Changes in Net Assets
					Primary Government
					Governmental
					Activities
Primary Government:					
Governmental Activities					
Instruction	\$ 22,327,571	\$ 284,896	\$ 4,433,005	\$ -	\$ (17,609,670)
Support Services	13,295,323	14,073	2,863,421	-	(10,417,829)
Non-instructional	2,619,914	241,251	2,161,875	-	(216,788)
Sixteenth Section	24,195	-	-	-	(24,195)
Interest & other expenses on long-term liabilities	1,211,036	-	-	-	(1,211,036)
Total governmental activities	\$ 39,478,039	\$ 540,220	\$ 9,458,301	\$ -	(29,479,518)
Taxes:					
					12,222,711
					1,566,424
Unrestricted grants & contributions:					
					16,685,056
					247,745
					196,999
					146,408
					293,657
			Total General Revenues		31,359,000
					1,879,482
					7,029,196
					8,908,678

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

HATTIESBURG PUBLIC SCHOOL DISTRICT

Governmental Fund Financial Statements

HATTIESBURG PUBLIC SCHOOL DISTRICT
Balance Sheet - Governmental Funds
June 30, 2005

Exhibit C

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	Title I Low Fund	16th Section Principal		
ASSETS					
Cash and cash equivalents	\$ 3,967,314	\$ -	\$ 3,018,181	\$ 1,181,205	\$ 8,166,700
Cash with Fiscal Agents	-	-	-	238,574	238,574
Due from other governments	676,965	172,909	-	831,998	1,681,872
Due from other funds	717,908	42	-	139,265	857,215
Inventories	65,621	-	-	87,281	152,902
Total Assets	\$ 5,427,808	\$ 172,951	\$ 3,018,181	\$ 2,478,323	\$ 11,097,263
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	\$ 342,460	\$ 17,344	\$ -	\$ 136,744	\$ 496,548
Due to other funds	303,126	155,607	110,594	266,521	835,848
Total Liabilities	645,586	172,951	110,594	403,265	1,332,396
Fund Balances:					
Reserved For:					
Inventory	65,621	-	-	87,281	152,902
Unreserved:					
Undesignated, reported in:					
General fund	4,716,601	-	-	-	4,716,601
Special Revenue funds	-	-	-	1,041,630	1,041,630
Capital Projects funds	-	-	-	287,808	287,808
Debt Service funds	-	-	-	658,339	658,339
Permanent funds	-	-	2,907,587	-	2,907,587
Total Fund Balances	4,782,222	-	2,907,587	2,075,058	9,764,867
Total Liabilities and Fund Balances	\$ 5,427,808	\$ 172,951	\$ 3,018,181	\$ 2,478,323	\$ 11,097,263

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

**HATTIESBURG PUBLIC SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2005**

EXHIBIT C-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 9,764,867
Amounts reported for governmental activities in the statement of net assets are different because:	
1 Capital assets are used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$13,007,681	26,259,346
2 Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(26,793,342)
3 Interest payable on long-term liabilities is not due and payable in the current period and therefore is not reported in the funds.	<u>(322,193)</u>
Total Net Assets - Governmental Activities	<u>\$ 8,908,678</u>

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

HATTIESBURG PUBLIC SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental Funds
For the year ended June 30, 2005

Exhibit D

	Major Funds				Total Governmental Funds
	General Fund	16TH SECTION PRINCIPAL		Other Governmental Funds	
REVENUES					
Local sources	\$ 12,827,051	\$ -	\$ -	\$ 1,991,624	\$ 14,818,675
State sources	17,252,495	-	-	1,396,903	18,649,398
Federal sources	274,409	2,223,861	-	5,243,431	7,741,701
Sixteenth section sources	-	-	110,594	35,814	146,408
Total Revenues	30,353,955	2,223,861	110,594	8,667,772	41,356,182
EXPENDITURES					
Instruction	18,066,318	1,328,148	-	2,901,862	22,296,328
Support services	10,740,585	1,050,236	-	1,674,459	13,465,280
Noninstructional services	197,186	67,355	-	2,300,230	2,564,771
Sixteenth section	-	-	-	24,195	24,195
Facilities acquisition and construction	50,000	-	-	62,550	112,550
Debt service:					
Principal	144,181	135,322	-	2,122,500	2,402,003
Interest	38,047	2,091	-	1,161,835	1,201,973
Other	-	-	-	15,530	15,530
Total Expenditures	29,236,317	2,583,152	-	10,263,161	42,082,630
Excess (Deficiency) of Revenues Over Expenditures	1,117,638	(359,291)	110,594	(1,595,389)	(726,448)
OTHER FINANCING SOURCES (USES)					
Proceeds from refunding bonds	-	-	-	768,000	768,000
Proceeds from loans	-	-	-	350,000	350,000
Inception of capital leases	486,300	399,291	-	-	885,591
Sale of transportation equipment	5,734	-	-	-	5,734
Sale of other property	623	-	-	-	623
Operating transfers in	3,982,881	-	-	1,154,641	5,137,522
Operating transfers out	(4,931,504)	(40,000)	(110,594)	(55,424)	(5,137,522)
Total Other Financing Sources (Uses)	(455,966)	359,291	(110,594)	2,217,217	2,009,948
Net Change in Fund Balances	661,672	-	-	621,828	1,283,500
Fund Balances					
July 1, 2004	4,114,521	-	2,907,587	1,456,220	8,478,328
Increase (Decrease) in reserve for inventory	6,029	-	-	(2,990)	3,039
June 30, 2005	\$ 4,782,222	\$ -	\$ 2,907,587	\$ 2,075,058	\$ 9,764,867

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

**HATTIESBURG PUBLIC SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005**

EXHIBIT D-1

Net Change in fund balances - governmental funds \$ 1,283,500

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

- | | |
|--|--------------|
| 1 Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchases amounted to \$1,161,092 and the depreciation expense amounted to \$922,937. | 238,155 |
| 2 Proceeds from sales of property of \$5,018 are reported as income in the governmental funds statement, but the net undepreciated value of the property of \$29,749 is matched with the proceeds on the statement of activities. | (29,749) |
| 3 Proceeds of long-term liabilities is reported in the governmental funds, but not in the statement of activity. | (2,003,591) |
| 4 Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of activity. | 2,402,003 |
| 5 Change in compensated absences is not reported in the governmental funds, but is included as an expenditure on the statement of activities. | (20,342) |
| 6 Decrease in accrued interest payable is reported in Expenditures-Debt Service-Interest in the governmental funds, but reduces the Interest Payable on Long Term Liabilities on the Statement of Net Assets. | 6,467 |
| 7 An increase/decrease in the reserve for inventory is reported as a direct increase/decrease to the fund balance in the governmental funds but is change in noninstructional service expense in the Statement of Activities. | <u>3,039</u> |

Change in net assets of governmental activities \$ 1,879,482

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

**HATTIESBURG PUBLIC SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2005**

EXHIBIT E

	<u>Agency Funds</u>
ASSETS	
Cash	\$ 1,675,857
Due from other funds	<u>2,258</u>
TOTAL ASSETS	<u>\$ 1,678,115</u>
LIABILITIES	
Payroll payable	\$ 1,625,532
Due to other funds	23,625
Due to Student Clubs	<u>28,958</u>
TOTAL LIABILITIES	<u>\$ 1,678,115</u>

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

**HATTIESBURG PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(1) Summary of Significant Accounting Policies.

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

A. Financial Reporting Entity.

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the School District's governing board. As defined by accounting principles generally accepted in the United States of America, the School District is considered an "other stand alone government." The School District is a related organization of, but not a component unit of, the City of Hattiesburg since the governing authority of the city selects a majority of the School District's board but does not have financial accountability for the School District.

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

The Authority is governed by a five member board which was appointed by the School District's governing board. Although it is legally separate from the School District, it is reported as if it is part of the primary government because its sole purpose is to provide financing for the renovation, improvement, construction, and equipping of certain school facilities. Therefore, all of the Authority's assets, liabilities, equity, revenues, expenditures and other financing sources and uses have been included in the government-wide financial statements of the School District (see Note 12).

B. Basis of Presentation.

The School District's basic financial statement consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the School District as a whole. They include all funds of the reporting entity except for fiduciary funds, if applicable. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange revenues.

**HATTIESBURG PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

B. Basis of Presentation (continued).

The Statement of Net Assets presents the financial condition of the governmental activities of the School District at year-end. The Government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements:

Fund financial statements of the School District are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category.

C. Measurement Focus and Basis of Accounting.

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Program revenues on the Statement of Activities consist primarily of state appropriations and federal awards.

In the fund financial statements, governmental funds and agency funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Property taxes, state appropriations and federal awards associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

The School District reports the following major governmental funds:

General Fund - This is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

**HATTIESBURG PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

C. Measurement Focus and Basis of Accounting (continued)

Title I low Fund – This fund accounts for the revenues from federal funds for Title I Low – grants to local educational agencies and the expenses directly related to these revenues.

16th Section Principal Fund – This is a permanent fund for which the financing sources are earnings on investments and the sale of non-renewable resources. Only the earnings on investment may be transferred to the general fund for use by the District. The permanent assets of the fund may be borrowed by the general fund for limited purposes to be repaid with interest over a period of time not to exceed 20 years.

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

Additionally, the School District reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

Permanent Funds - Permanent Funds are used to account for resources that are legally 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. Account Classifications.

The account classifications used in the financial statements conform to the classifications prescribed in the *Financial Accounting Manual for Mississippi Public School Districts* issued by the Office of the State Auditor. The classifications in that manual are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 1990* 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.

**HATTIESBURG PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

F. Cash and Cash Equivalents.

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.

Cash and cash equivalents consists of amounts on deposit in demand accounts and certificates of deposit with maturities of 12 months or less. Cash and cash equivalents are valued at cost.

G. Investments.

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

For accounting purposes, certificates of deposit are classified as investments if they have a maturity greater than 12 months when acquired.

H. 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.

I. Capital Assets.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed assets are reported at estimated fair value at the time received.

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are reported in the government-wide statements and proprietary funds. Depreciation is calculated on the straight-line basis for all assets, except land. The following schedule details those thresholds.

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

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

**HATTIESBURG PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

J. Long-term liabilities.

Long-term liabilities are the unmatured principal of bonds, warrants, notes, or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments. Long-term liabilities should not be reported as liabilities in governmental funds, but should be reported in the governmental activities column in the government-wide statement of net assets. See Note 5 for details.

K. Interfund Transactions and Balances.

Interfund transactions and balances are the result of timing differences between the date expenses/expenditures occur and the date payments are made.

Short-term (due within one year) interfund loan receivables are reported as "due from other funds" and are considered available expendable resources.

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 3 for details for interfund transactions, including receivables and payables at year-end.

L. Equity Classifications.

Government-wide Financial Statements:

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, constructions or improvement of those assets.
2. Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statements:

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

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

**HATTIESBURG PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

L. Equity Classifications (continued).

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

M. Property Taxes.

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

N. Mississippi Adequate Education Program Revenues.

Revenues from the 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.

O. Compensated Absences.

Employees of the School District accumulate sick leave at a minimum amount as required by state law or at a greater amount provided by School District policy. Some employees are allowed personal leave and/or vacation leave in accordance with School District policy. The District pays for unused leave for employees as required by Section 37-7-307(5), Miss. Code Ann. (1972).

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

(2) Changes in Accounting Standards

As required, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No 40, *Deposit and Investment Risk disclosures - an amendment of GASB Statement No. 3* for the current fiscal year. This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Appropriate note disclosures have been incorporated to comply with the requirements of this standard.

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

Cash and Cash Equivalents.

The collateral for public entities' 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 the institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

**HATTIESBURG PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(3) Cash and Cash Equivalents and with Fiscal Agents (continued).

Cash and Cash Equivalents.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$8,166,700 and \$1,675,857, respectively. The carrying amount of deposits reported in the government-wide financial states was Cash and Cash Equivalents -- \$4,909,945 and Restricted Assets -- \$3,256,755. The Restricted Assets represent the cash investment 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. The bank balance was \$11,368,807.

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 formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on the behalf of the district. Deposits above the FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2005, none of the district's bank balance of \$11,368,807 was exposed to custodial risk.

Cash with Fiscal Agents.

The carrying amount of the school district's cash with fiscal agents held by financial institutions was \$238,574.

Custodial Credit Risk—Cash with Fiscal Agents. 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 with fiscal agents. The district does not have a formal policy for custodial credit risk. Of the district's \$238,574 with fiscal agents, \$138,574 is not covered by FDIC.

(4) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

	<u>Due From</u>	<u>Due To</u>
Major funds:		
General fund	\$ 717,908	\$ 303,126
Title I	42	155,607
16 th Section Principal Fund	-	110,594
Non-major Funds	139,265	266,521
Agency Funds	2,258	23,625
 Total Funds	 \$ 859,473	 \$ 859,473

The amounts due to or from other funds represent amounts advanced or received for timing differences between revenues and expenditures and cash balances.

**HATTIESBURG PUBLIC SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2005**

(4) Interfund Transactions and Balances (continued).

B. Transfers In/Out:

	<u>Transfer In</u>	<u>Transfers Out</u>
Major funds:		
General fund	\$ 3,982,881	\$ 4,931,504
Title I	-	40,000
16 th Section Principal Fund	-	110,594
Non-major Funds	<u>1,154,641</u>	<u>55,424</u>
 Total Funds	 <u>\$ 5,137,522</u>	 <u>\$ 5,137,522</u>

The transfers represent board approved operating transfers for school operations and planning purposes.

**HATTIESBURG PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(5) Capital Assets.

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

	BALANCE 7/1/2004	ADDITIONS	RETIRE.	ADJUST.	BALANCE 6/30/2005
<u>NON-DEPRECIABLE CAPITAL</u>					
LAND	\$ 165,301	\$ -	\$ -	\$ -	\$ 165,301
CONSTRUCTION IN PROGRESS	-	-	-	-	-
TOTAL NON-DEPRECIABLE	165,301	-	-	-	165,301
<u>DEPRECIABLE CAPITAL ASSETS</u>					
BUILDINGS	33,008,726	-	-	-	33,008,726
BUILDINGS IMPROVEMENTS	-	44,000	-	-	44,000
IMPROVEMENTS OTHER THAN BLDGS.	1,082,195	149,477	-	-	1,231,672
MOBILE EQUIPMENT	1,805,147	32,581	(294,083)	-	1,543,645
FURNITURE AND EQUIPMENT	1,441,206	48,813	(34,187)	-	1,455,832
LEASED PROPERTY-CAPITAL LEASES	931,630	886,221	-	-	1,817,851
TOTAL DEPRECIABLE CAPITAL	38,268,904	1,161,092	(328,270)	-	39,101,726
<u>LESS ACCUMULATED DEPRECIATION</u>					
BUILDINGS	(8,998,425)	(493,188)	-	-	(9,491,613)
BUILDINGS IMPROVEMENTS	-	(1,760)	-	-	(1,760)
IMPROVEMENTS OTHER THAN BLDGS.	(746,675)	(12,496)	-	-	(759,171)
MOBILE EQUIPMENT	(1,391,802)	(55,735)	264,674	-	(1,182,863)
FURNITURE AND EQUIPMENT	(1,020,629)	(126,056)	33,847	-	(1,112,838)
LEASED PROPERTY-CAPITAL LEASES	(225,734)	(233,702)	-	-	(459,436)
TOTAL ACCUMULATED DEPRECIATION	(12,383,265)	(922,937)	298,521	-	(13,007,681)
TOTAL DEPR. CAPITAL ASSETS, NET	25,885,639	238,155	(29,749)	-	26,094,045
GOVERNMENTAL ACTIVITIES					
CAPITAL ASSETS, NET	\$ 26,050,940	\$ 238,155	\$ (29,749)	\$ -	\$ 26,259,346

**HATTIESBURG PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(5) Capital Assets (continued).

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 8,208
Support services	839,163
Non-instructional	75,566
Total depreciation expense	\$ 922,937

(6) Long-term liabilities.

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

	Balance 7/1/2004	Additions	Reductions	Balance 6/30/2005	Amounts due within one year
A. General obligation bonds payable	\$14,525,000	\$ -	\$ 395,000	\$14,130,000	\$ 435,000
B. Limited obligation bonds payable	8,010,000	-	395,000	7,615,000	415,000
C. Certificates of participation payable	765,000	768,000	897,500	635,500	154,500
D. Three mill notes payable	3,175,000	350,000	435,000	3,090,000	495,000
E. Obligations under capital leases	204,960	885,591	186,908	903,643	206,823
F. Obligations under energy efficiency lease	239,203	-	92,595	146,608	92,595
G. Compensated absences payable	252,249	20,342	-	272,591	19,700
Total	\$27,171,412	\$2,023,933	\$2,402,003	\$26,793,342	\$1,818,618

A. General obligation bonds payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General obligation bonds, Series 2002	4.55 net	4/1/2002	4/1/2018	\$ 8,000,000	\$ 7,485,000
General obligation bonds, Series 2002-A	3.96 net	10/1/2002	10/1/2013	1,750,000	1,645,000
General obligation bonds, Series 2003-A	3.74 net	4/15/2003	4/15/2019	5,250,000	5,000,000
Total				\$ 15,000,000	\$ 14,130,000

**HATTIESBURG PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

A. General obligation bonds payable (continued).

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

Year Ending 30-Jun	Principal	Interest	Total
2006	\$ 435,000	\$ 605,286	\$ 1,040,286
2007	495,000	582,459	1,077,459
2008	595,000	555,981	1,150,981
2009	710,000	523,801	1,233,801
2010	810,000	486,507	1,296,507
2011 - 2015	5,860,000	1,782,349	7,642,349
2016- 2020	<u>5,225,000</u>	<u>504,875</u>	<u>5,729,875</u>
Total	<u>\$ 14,130,000</u>	<u>\$ 5,041,258</u>	<u>\$ 19,171,258</u>

The amount of bonded indebtedness that can be incurred by the School District is limited by state statute. Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such District, according to the then last completed assessment for taxation, unless certain conditions, as set forth in state statutes, have been met. As of June 30, 2005, the amount of outstanding bonded indebtedness was equal to 6.2% of property assessments as of October 1, 2004. This debt will be retired from the Bond Debt Service Fund.

B. Limited obligation bonds payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital improvement Bond Series 1998	4.5-6.75	6/1/1998	2/1/2018	<u>\$ 8,575,000</u>	<u>\$ 7,615,000</u>

**HATTIESBURG PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

B. Limited obligation bonds payable (continued).

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

Year Ending 30-Jun	Principal	Interest	Total
2006	\$ 415,000	\$ 353,659	\$ 768,659
2007	445,000	326,247	771,247
2008	465,000	301,019	766,019
2009	490,000	278,950	768,950
2010	500,000	256,675	756,675
2011 - 2015	2,860,000	910,858	3,770,858
2016- 2020	2,440,000	193,088	2,633,088
Total	<u>\$ 7,615,000</u>	<u>\$ 2,620,496</u>	<u>\$ 10,235,496</u>

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

C. Certificates of participation payable.

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Trust Certificates	1.75-3.0	9/1/04	12/05/2008	\$768,000	\$635,500

As more fully explained in Note 12, certificates of participation have been issued by the School District. Certificates of participation currently outstanding are as follows:

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

Year Ending 30-Jun	Principal	Interest	Total
2006	\$ 154,500	\$ 14,793	\$ 169,293
2007	155,500	11,304	166,804
2008	162,000	7,132	169,132
2009	163,500	2,453	165,953
Total	<u>\$ 635,500</u>	<u>\$ 35,682</u>	<u>\$ 671,182</u>

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

**HATTIESBURG PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

D. Three mill notes payable.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Limited Tax Notes, Series 1998	4.3-5.75	6/30/1998	6/1/2003	\$ 1,420,000	\$ 500,000
Limited Tax Notes, Series 1999	4.1-5.0	4/30/1999	5/1/2009	2,580,000	1,300,000
Limited Tax Notes, Series 2003	2.5-3.45	7/4/2003	6/1/2011	1,000,000	940,000
Limited Tax Notes, Series 2005	3.2	4/15/2005	4/15/2011	<u>350,000</u>	<u>350,000</u>
Total				<u>\$ 5,350,000</u>	<u>\$ 3,090,000</u>

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

Year Ending 30-Jun	Principal	Interest	Total
2006	\$ 495,000	\$ 117,174	\$ 612,174
2007	515,000	97,344	612,344
2008	540,000	76,634	616,634
2009	565,000	54,526	619,526
2010	580,000	32,100	612,100
2011 - 2015	<u>395,000</u>	<u>13,328</u>	<u>408,328</u>
Total	<u>\$ 3,090,000</u>	<u>\$ 391,106</u>	<u>\$ 3,481,106</u>

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

E. Obligations under capital leases.

- The School District has entered into a master lease agreement that qualifies as a capital lease for accounting purposes. Leased property under this lease is composed of two buses, one 30 passenger mini bus, two driver education cars, and two service trucks for a total of \$283,266 at 4.606%. The original issue date was October 17, 2001 and this lease expires September 10, 2011 and does not contain any renewal options. This District will take possession of the assets at the expiration of the term. This debt will be retired from the General Fund.

**HATTIESBURG PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

E. Obligations under capital leases (continued).

2. The School District has entered into a lease with a Bank to purchase computers for Title I program. Leased property under this lease is composed of computer expense at rate of 2.73%. The original issue date was August 6, 2004 and this lease expires October 15, 2006. The District will take possession of the assets at the expiration of the term. This debt will be retired from the Title I fund.

3. The School District has entered into a master lease agreement that qualifies as a capital lease for accounting purposes. Leased property under this lease is composed of ten buses for \$486,300 at 4.13%. The original issue date was September 10, 2004 and this lease expires September 10, 2014 and does not contain any renewal options. This District will take possession of the assets at the expiration of the term. This debt will be retired from the General Fund.

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

Year Ending June 30,	Principal	Interest & Maintenance	Total
2006	\$ 206,823	\$ 33,619	\$ 240,442
2007	205,607	26,696	232,303
2008	66,606	20,094	86,700
2009	69,491	17,208	86,699
2010	72,503	14,197	86,700
2011 - 2015	<u>282,613</u>	<u>27,712</u>	<u>310,325</u>
Total	<u>\$ 903,643</u>	<u>\$ 139,526</u>	<u>\$ 1,043,169</u>

F. Obligations under energy efficiency lease.

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

Year Ending June 30,	Principal	Interest & Maintenance	Total
2006	\$ 92,595	\$ 16,718	\$ 109,313
2007	<u>54,013</u>	<u>9,752</u>	<u>63,765</u>
Total	<u>\$ 146,608</u>	<u>\$ 26,470</u>	<u>\$ 173,078</u>

An energy efficiency lease agreement dated February 2, 2000, was executed by and between the District, the lessee, and Mississippi Power Company, the lessor. The District entered into this energy efficiency lease agreement under the authority of Section 31-7-14, Miss. Code Ann. (1972).

**HATTIESBURG PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

F. Obligations under energy efficiency lease (continued).

The agreement authorized the borrowing of \$648,164 for the purchase of energy efficiency equipment, machinery, supplies building modifications and other energy saving items. Payments of the lease shall be made from the District maintenance fund and not exceed ten (10) years. Upon written notice to the lessor, the lessee has the option of repaying the total amount due as set forth by the agreement. This debt will be retired from the General Fund.

G. Compensated absences payable.

As more fully explained in Note 1(O), 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.

H. The following is a summary of changes in short-term borrowing:

	Balance 7/1/2004	Additions	Reductions	Balance 6/30/2005
Tax Anticipation Note - 3.32%	\$ -	\$ 1,000,000	\$ 1,000,000	\$ -
	\$ -	\$ 1,000,000	\$ 1,000,000	\$ -

(7) Defined Benefit Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the School District is required to contribute at an actuarially determined rate. The current rate is 9.75% 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, 2005, 2004, and 2003 were \$2,251,767, \$2,147,632, and \$2,017,268, respectively, which equaled the required contributions for each year.

**HATTIESBURG PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(8) Other Commitments.

Operating leases:

The School District has several operating leases for the following:

1. 32 Copiers
2. 2 Risographs

Lease expenditures for the year ended June 30, 2005, amounted to \$94,741. Future lease payments for these leases are as follows:

Year Ending June 30	Amount
2006	\$ 92,684
2007	81,623
2008	36,576
2009	16,446
2010	5,252
Total	<u>\$ 232,581</u>

(9) Sixteenth Section Lands.

Sixteenth section school lands, or lands granted in lieu thereof, constitute property held in trust for the benefit of the public schools. The school board, under the general supervision of the Office of the Secretary of State, has control and jurisdiction of said school trust lands and of all funds arising from any disposition thereof. It is the duty of the school board to manage the school trust lands and all funds arising there from 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
2006	\$ 22,803
2007	22,803
2008	22,803
2009	22,803
2010	22,803
2011 - 2015	114,015
2016 - 2020	<u>114,015</u>
Total	<u>\$ 342,045</u>

**HATTIESBURG PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(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. The District carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The School District is a member of the Mississippi Municipal Workers Compensation Group (MMWCG). The group is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. MMWCG covers risks of loss arising from injuries to the School District's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of the MMWCG contributes quarterly to a fund held in trust. The funds in the trust account are used to pay any claim up to \$250,000. For a claim exceeding \$250,000, MMWCG has insurance which will pay the excess up to the statutory limit. If total claims during a year were to deplete the trust account, then the pool members would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

(11) Uncertainties.

In cases where a township is occupied by two or more School Districts, state law requires that available sixteenth section funds shall be divided between the School Districts lying wholly or partly within such townships in proportion to the number of children enrolled and residing in each School District. In order to determine what portions of available sixteenth section funds are due to or from other School Districts, the superintendent of each School District is required to compile lists of such children in compliance with Section 29-3-121, Miss. Code Ann. (1972). School Districts which share townships with Hattiesburg Public School District and the Hattiesburg Public School District itself filed lists of children as required, division of sixteenth section revenues were shared between the Districts.

(12) Trust Certificates.

A trust agreement dated December 15, 1993, was executed by and between the School District and Trustmark National Bank, as trustees.

The trust agreement authorized the issuance of trust certificates in the principal amount of \$1,500,000. Approximately \$1,455,000 was used to provide financing for the construction and renovation of school buildings and related facilities and equipment (the "project"); the remainder of approximately \$45,000 was used to pay the cost of issuance.

**HATTIESBURG PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(12) Trust Certificates (continued).

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

It is not anticipated the project will have sufficient value to satisfy the certificates in the event the School District defaults under the lease; therefore, the source of payment of the certificates is the responsibility of the School District. See Note 5 for details regarding the debt service requirement on the trust certificates.

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

(13) Subsequent Event

Hurricane Katrina damaged school property on August 29, 2005. Because of the damage and the loss of essential services, i.e., power, water, and fuel for transportation, the schools could not reopen until September 19, 2005. The preliminary estimates of the damage are not available at this time. The school district has adequate insurance coverage with a \$10,000 and 10% deductible. It is estimated that the general fund balance is sufficient to cover the cost to the school district for repairs.

HATTIESBURG PUBLIC SCHOOL DISTRICT

Required Supplementary Information

HATTIESBURG PUBLIC SCHOOL DISTRICT
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2005

SCHEDULE 1

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$12,523,932	\$12,761,150	\$12,827,052	\$237,218	\$65,902
State sources	17,162,519	17,277,004	17,252,495	114,485	(24,509)
Federal sources	310,304	310,304	274,408	-	(35,896)
Total Revenues	29,996,755	30,348,458	30,353,955	351,703	5,497
Expenditures:					
Instruction	17,726,565	17,892,995	18,066,318	(166,430)	(173,323)
Support services	11,493,353	11,115,713	10,740,584	377,640	375,129
Noninstructional services	177,820	192,820	197,186	(15,000)	(4,366)
Facilities Acquisition & construction	-	50,000	50,000	(50,000)	-
Debt service:					
Principal	146,393	146,393	144,181	-	2,212
Interest	35,774	35,774	38,048	-	(2,274)
Total Expenditures	29,579,905	29,433,695	29,236,317	146,210	197,378
Excess (Deficiency) of Revenues Over Expenditures	416,850	914,763	1,117,638	497,913	202,875
Other Financing Sources (Uses):					
Inception of capital leases	486,300	486,300	486,300	-	-
Insurance loss recoveries	500	500	-	-	(500)
Sale of transportation property	-	5,500	5,734	5,500	234
Sale of other property	200	200	624	-	424
Operating transfers in	4,075,761	4,108,194	3,982,880	32,433	(125,314)
Operating transfers out	(4,962,219)	(5,139,719)	(4,931,504)	(177,500)	208,215
Total Other Financing Sources Uses)	(399,458)	(539,025)	(455,966)	(139,567)	83,059
Net Change in Fund Balances	17,392	375,738	661,672	358,346	285,934
Fund Balances:					
July 1, 2004	4,120,549	4,120,549	4,114,521	-	(6,028)
Prior period adjustment	-	-	6,029	-	6,029
June 30, 2005	\$ 4,137,941	\$ 4,496,287	\$ 4,782,222	\$ 358,346	\$ 285,935

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

HATTIESBURG PUBLIC SCHOOL DISTRICT
Budgetary Comparison Schedule
Title I - Grant to Local Education Fund
For the Year Ended June 30, 2005

SCHEDULE 2

	<u>Budgeted Amounts</u>		Actual (GAAP Basis)	Variances	
	<u>Original</u>	<u>Final</u>		Positive (Negative)	
				Original to Final	Final to Actual
Revenues:					
Local sources	\$ -	\$ -	\$ -	\$ -	\$ -
State sources	-	-	-	-	-
Federal sources	1,958,894	2,240,432	2,223,861	281,538	(16,571)
Total Revenues	1,958,894	2,240,432	2,223,861	281,538	(16,571)
Expenditures:					
Instruction	1,315,382	1,171,294	1,328,148	144,088	(156,854)
Support services	926,330	1,341,456	1,050,236	(415,126)	291,220
Noninstructional services	76,473	76,973	67,355	(500)	9,618
Debt service					
Principal	-	-	135,322	-	(135,322)
Interest	-	-	2,091	-	(2,091)
Total Expenditures	2,318,185	2,589,723	2,583,152	(271,538)	6,571
Excess (Deficiency) of Revenues Over Expenditures	(359,291)	(349,291)	(359,291)	10,000	(10,000)
Other Financing Sources (Uses):					
Inception of capital leases	399,291	399,291	399,291	-	-
Indirect costs transfers out	(40,000)	(50,000)	(40,000)	(10,000)	10,000
Total Other Financing Sources Uses)	359,291	349,291	359,291	(10,000)	10,000
Net Change in Fund Balances	-	-	-	-	-
Fund Balances:					
July 1, 2004	-	-	-	-	-
June 30, 2005	\$ -	\$ -	\$ -	\$ -	\$ -

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

HATTIESBURG PUBLIC SCHOOL DISTRICT
Notes to the Required Supplementary Information
For the Year Ended June 30, 2005

Budgetary Comparison Schedules

(1) Basis of Presentation.

The Budgetary Comparison Schedules present the original legally adopted budget, the final legally adopted budget, the actual data on 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 the date established by the Mississippi Department of Education. 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.

HATTIESBURG PUBLIC SCHOOL DISTRICT

Supplemental Information

HATTIESBURG PUBLIC SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	\$ 124,335
Child nutrition cluster:		
School breakfast program	10.553	506,447
National school lunch program	10.555	1,294,509
Fruit & Vegetable Grant	10.557	20,251
Summer food service program for children	10.559	136,739
Total child nutrition cluster		<u>1,957,946</u>
Total U. S. Department of Agriculture		<u>2,082,281</u>
 <u>U.S. Department of Commerce</u>		
Passed-through Mississippi Department of Education:		
Technology opportunities	11.552	<u>247,745</u>
 <u>U.S. Department of Education</u>		
Direct programs:		
Teaching American History	84.215X	209,901
Foreign language assistance	84.281	122,413
Gaining Early Awareness for Readiness in Undergraduate Program:	84.334	2,525
Total		<u>334,839</u>
 Passed-through Mississippi Board for Community and Junior Colleges		
Adult education - state grant program	84.002	<u>98,139</u>
 Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	2,300,850
Vocational education - basic grants to states	84.048	95,942
Safe and drug-free schools and communities - state grants	84.186	12,597
Eisenhower professional development grant	84.281	351,860
Innovative education program strategies	84.298	34,246
Education technology state grants	84.318	337,964
Teacher quality enhancement grant	84.336	5,000
Reading first state grants	84.357	541,979
Total		<u>3,680,438</u>

HATTIESBURG PUBLIC SCHOOL DISTRICT
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2005

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
Passed-through Mississippi Department of Education (continued):		
Special education cluster:		
Special education - grants to states	84.027	947,839
Special education - preschool grants	84.173	38,642
Special education grants for infants and families with disabilities	84.181	<u>36,672</u>
Total		<u>1,023,153</u>
Total passed-through Mississippi Department of Education		<u>4,703,591</u>
Total U.S. Department of Education		<u>5,136,569</u>
 <u>U.S. Department of Health and Human Services</u>		
Passed-through Mississippi Department of Health and Human Services:		
Child care and development block grant	93.575	<u>207,170</u>
 <u>Other Federal Agencies</u>		
Troops to teach	12.XXX	<u>66,920</u>
Total for All Federal Awards		<u>\$ 7,740,685</u>

NOTES TO THE 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.

Hattiesburg Public School District
Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
For the Year Ended June 30, 2005

Expenditures	Total	Instruction	Administrative	Other
Salaries and fringe benefits	\$ 29,420,898	\$ 20,302,886	\$ 3,073,026	\$ 6,044,986
Other	12,661,732	1,993,441	778,114	9,890,177
Total	\$ 42,082,630	\$ 22,296,327	\$ 3,851,140	\$ 15,935,163
 Total number of students	 <u>4,602.00</u>			
 Cost per student	 <u>\$ 9,144</u>	 <u>\$ 4,845</u>	 <u>\$ 837</u>	 <u>\$ 3,463</u>

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

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

Administrative - includes expenditures for the following functions: Support Services - General Administration (2300s); Support Services - School Administration (2400s); and Support Services - Business (2500s)

Other - includes all expenditure functions not included in Instruction or Administrative

HATTIESBURG PUBLIC SCHOOL DISTRICT
Reports on Compliance and Internal Control

HOLT & ASSOCIATES, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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M.C. Princy Harrison, CPA, CGFM
Julie M. Brown, CPA

Michael E. Novoa, CPA
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H. I. Holt, CPA
Founder (1915 - 1997)

Members:
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Mississippi Society of
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Division of CPA Firms
Private Companies Practice Section

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*

November 7, 2005

Superintendent and School Board
Hattiesburg Public School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Hattiesburg Public School District as of and for the year ended June 30, 2005, and have issued our report thereon dated November 7, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hattiesburg Public School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operations that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design of operation of the internal control over financial reporting that, in our judgment, could adversely affect Hattiesburg Public School District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 05-1 and 05-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

Superintendent and School Board
Hattiesburg Public School District
Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hattiesburg Public School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 did not disclose any instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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

Holt & Associates, PLLC

Holt & Associates, PLLC

November 7, 2005

HOLT & ASSOCIATES, PLLC

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

November 7, 2005

Superintendent and School Board
Hattiesburg Public School District

Compliance

We have audited the compliance of the Hattiesburg Public School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The School District's major federal programs are identified in the summary of auditor's results section of the Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the school District's compliance based on our audit.

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

In our opinion, Hattiesburg Public School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 05-3.

Superintendent and School Board
Hattiesburg Public School District
Page Two

Internal Control Over Compliance

The management of the Hattiesburg Public School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the school District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did not note any matters involving internal control over compliance and its operation that we consider to be material weaknesses.

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

Holt & Associates, PLLC

Holt & Associates, PLLC

November 7, 2004

HATTIESBURG PUBLIC SCHOOL DISTRICT

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

November 7, 2005

Superintendent and School Board
Hattiesburg Public School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Hattiesburg Public School District for the year ended June 30, 2005, which collectively comprise the Hattiesburg School District's basic financial statements and have issued our report thereon dated November 7, 2005. 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.

Section 37-9-18(3), 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 procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed an instance of non-compliance. The non-compliance is reported in findings below. The District reported \$53,761 of classroom supply funds carried over from previous years.

Finding

During our review of the 16th section leasehold collection procedures, we noted the following items:

- Presently there is no system that monitors 16th section leases.
- No notices are mailed to leaseholders when lease is due.
- There is no accounting for arrearages. During the year ended June 30, 2005 approximately 23% of land leases were collected.

This is a repeat finding. In the prior year approximately 55% of the land leases were collected. (MCA Section 29-3-111)

Recommendation

The School District needs to assign the duties of sixteenth section manager to an employee. This employee should be responsible for the timely collection and deposits of all current sixteenth section leases and should investigate arrearages.

Response

Beginning November 2005, the district assigned one employee responsibility for recordkeeping and timely collection of 16th Section leases and payments, under the direction of the Associate Superintendent. A master list of dates and terms of all leases is in preparation and will be kept current at all times. The district will send notices of payments due, investigate and collect payments in arrears, and cancel delinquent leases under provisions of state law. All collections will be submitted to the business office for prompt deposit.

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements disclosed the following immaterial instance of noncompliance with other state laws (Section 34-7-13(3)(a)(iii), Miss. Code Ann. (1972)) and regulations. Our finding and recommendation and your response are as follows:

Finding

Our test of EEF teacher allowances for supplies indicated that 16% of the teachers allowances sampled spent more than their budget. This is a repeat finding. (MCA Section 37-6-33(3)(a)(iv))

Recommendation

The District should emphasize to the principals their responsibility to insure that this section of the law be followed and should monitor the program more closely.

Response

Beginning January 2006, the district's business office will centralize the budgeting and accounting for Fund 2440, EEF classroom supply funds. Each individual teacher's allocation will be recorded in the district's financial software as a budget line item. No purchase orders will be issued in excess of the budgeted amount. The principals will have access to reports in order to monitor all details of the EEF purchases made at their schools.

Superintendent and School Board
Hattiesburg Public School District
Page 3

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

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

Holt & Associates, PLLC

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November 7, 2005

HATTIESBURG PUBLIC SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

HATTIESBURG PUBLIC SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

Section 1: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

- | | |
|--|-------------|
| 4. Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 5. Internal control over major programs: | |
| a. Material weakness identified? | No |
| b. Reportable condition(s) identified that are not considered to be material weaknesses? | Yes |
| 6. Any audit finding(s) reported as required by Section __.510(a) of Circular A-133? | No |
| 7. Federal programs identified as major programs: | |
| a. Cluster: Nutrition Cluster
CFDA #10.553
CFDA #10.555
CFDA #10.559 | |
| b. Education Technology State Grant
CFDA #84.318 | |
| c. Reading First State Grants
CFDA #84.357 | |
| 8. The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. Auditee qualified as a low-risk auditee? | Yes |
| 10. Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section __.315(b) of OMB Circular A-133? | Yes |

HATTIESBURG PUBLIC SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

Section 2 Financial Statement Findings

Reportable Conditions not Considered to be Material Weaknesses

05-1 Finding

In our test of miscellaneous receipts, 22.5% of the items sampled were not deposited within a week of their receipt.

Recommendation

All receipts should be deposited by the day following the receipt.

05-2 Finding

In our test of payroll records, five out of the 40 records sampled, did not have the proper employee signatures for the current year's fringe benefit withholdings.

Recommendation

No employee should have tax deferred benefits without the proper current authorization.

Section 3: Federal Awards Findings and Question Costs

Reportable Conditions not Considered to be Material Weaknesses

05-3 Finding

National School Lunch Program CDEA #10.555

Reimbursement requests for the month of September 2004 were understated by \$35,951.58. During September 2004, a new computer system was installed. The information used to report the meals served for reimbursement did not pick up all the days for all the schools resulting in errors in computing the reimbursement request.

Recommendation

The School District should seek reimbursement for \$35,951.58.

HATTIESBURG PUBLIC SCHOOL DISTRICT

Auditee's Corrective Action Plan and Summary of Prior Audit Findings



Financial & Compliance Audit Division

As required by Section ____ .315(c) of OMB Circular A-133, the Hattiesburg Public School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2005:

<u>Finding</u>	<u>Corrective Action Plan Details</u>
05-1	<p>a. Name(s) of Contact Person(s) Responsible for Corrective Action: Frank Aderholdt, Business Manager. Madeline Johnson, Accounts Payable Clerk.</p> <p>b. Corrective Action Planned: One business office employee has been assigned the responsibility of depositing all items received at the central office. This employee deposits all receipts on the same or the next business day.</p> <p>c. Anticipated Completion Date: This procedure is currently in place.</p>
05-2	<p>a. Name(s) of Contact Person(s) Responsible for Corrective Action: Frank Aderholdt, Business Manager. Estralita Knight, Insurance Clerk.</p> <p>b. Corrective Action Planned: The insurance clerk will make several reviews of employee files to insure that all withholdings have the required authorizations. Employees whose records are not on file will be contacted personally to obtain their signatures.</p> <p>c. Anticipated Completion Date: These procedures are currently in place.</p>
05-3	<p>a. Name(s) of Contact Person(s) Responsible for Corrective Action Stephanie Hoze, Food Service Director.</p> <p>b. Corrective Action Planned: This district will seek reimbursement for \$35,951.58 for the month of September 2004 from the Mississippi Department of Education, Office of Child Nutrition.</p> <p>c. Anticipated Completion Date: December 2005.</p>

As required by Section __.315(b) of OMB Circular A-133, the Hattiesburg Public School District has prepared and hereby submits the following summary schedule of prior audit findings as of June 30, 2004:

Finding: Corrective Action Taken:

2004-1: The district is continuing to review all 16th Section leases. During the 2005-06 fiscal year, all leases should be identified. Procedures will be put in place to notify leaseholders of payments due, to collect all current payments and payments in arrears, and to cancel delinquent leases under applicable provisions of state law.

2004-2: The district had an improved system in place to monitor travel advances and to ensure their timely settlements during the second half of fiscal year 2004-05. We are considering several additional requirements.

2004-3: New procedures to supervise and review all steps of the accounts payable process were in place during the 2004-05 fiscal year.

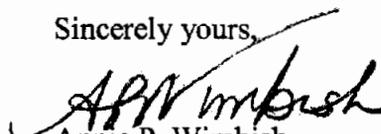
2004-4: All potential finding regarding the NEEDS program were resolved for the contract period ending June 30, 2005. For the 2005-06 contract, the district will monitor the NEEDS program as required by federal guidelines to ensure compliance with the requirements of the grant.

2004-5: The recommended procedures are currently in place.

2004-6: The recommended procedures are currently in place.

2004-7: The recommended procedures are currently in place.

Sincerely yours,


Annie P. Wimbish
Superintendent