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**HINDS COUNTY SCHOOL DISTRICT**

**Audited Financial Statements**

**For the Year Ended June 30, 2005**

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FINANCIAL AUDIT REPORT



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

Superintendent and School Board  
Hinds County School District

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Hinds County School District, as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 1, 2006, on our consideration of the Hinds County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 9 and the Budgetary Comparison Schedule and corresponding notes on pages 33 and 34 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 Hinds County School District's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. In addition, the Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds is presented for purposes of additional analysis. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Bruno & Tervalon LLP*  
BRUNO & TERVALON LLP  
CERTIFIED PUBLIC ACCOUNTANTS

April 1, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The discussion and analysis of Hinds County 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.

This discussion and analysis is a new element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999.

**FINANCIAL HIGHLIGHTS**

- Total net assets increased \$4,065,381, which represents 18% of ending net assets.
- General revenues account for \$37,560,903 in revenue, or 86% of all revenues. Program specific revenues in the form of charges for services, and operating grants and contributions accounted for \$6,258,318 or 14% of total revenues.
- The District had \$39,753,840 in expenses; only \$6,258,318 of these expenses was offset by program specific charges for services, and operating grants and contributions. General revenues of \$37,560,903 were adequate to provide for these programs.
- Among major funds, the General Fund had \$32,167,289 in revenues and \$29,264,219 in expenditures. The General Fund's fund balance increased \$1,488,301 over the prior year because of careful spending by the district and a teacher shortage.
- Capital assets, net of accumulated depreciation, increased by \$6,515,736. The increase was due primarily to the completion of construction projects at three (3) schools and the continuing construction costs of current projects.
- Long-term debt was decreased by a net amount of \$3,212,315.

**OVERVIEW OF FINANCIAL STATEMENTS**

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

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

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

**HINDS COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2005**

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 10 and 11 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 13 and 15, respectively.

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 12 - 15 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 the Statement of Fiduciary Net Assets on page 16.

**HINDS COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2005**

**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 17 - 32 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. This required supplementary information can be found on pages 33 and 34 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on page 35 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 Hinds County Schools, assets exceeded liabilities by \$22,049,340 as of June 30, 2005.

The District's investment in capital net assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment, and construction in progress), less any related debt used to acquire those assets that is still outstanding makes up (32%) of the District's net assets. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending. The District also has a significant portion of unrestricted net assets (37%). The remaining (31%) of the District's net assets are restricted.

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

	<u>2005</u>	<u>2004</u>
Current assets	\$ 17,599,725	\$ 23,602,270
Capital assets, net	<u>62,331,381</u>	<u>55,815,645</u>
<b>Total assets</b>	<u>79,931,106</u>	<u>79,417,915</u>
Current liabilities	2,431,798	2,771,673
Long-term debt outstanding	<u>55,449,968</u>	<u>58,662,283</u>
<b>Total liabilities</b>	<u>57,881,766</u>	<u>61,433,956</u>
<b>Net assets:</b>		
Invested in capital assets, net of related debt	7,021,391	5,179,338
Restricted	6,768,640	4,362,232
Unrestricted	<u>8,259,309</u>	<u>8,442,389</u>
<b>Total net assets</b>	<u>\$22,049,340</u>	<u>\$17,983,959</u>

**HINDS COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2005**

The district's decrease in current assets and increase in capital assets and investments in capital assets were due primarily to new construction in the current year. Amounts held as cash for construction projects were converted to capital assets during the year ended June 30, 2005, causing the decrease in current assets and the increase in capital assets.

**Change in net assets.** The District's total revenues for the fiscal year ended June 30, 2005 were \$43,819,221. The total cost of all programs and services was \$39,753,840. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2005.

	<u>2005</u>	<u>2004</u>
<b>Revenues:</b>		
Program revenues	\$ 6,258,318	\$ 7,171,772
General revenues	<u>37,560,903</u>	<u>34,919,501</u>
<b>Total revenues</b>	<u>43,819,221</u>	<u>42,091,273</u>
<b>Expenses:</b>		
Instruction	20,354,308	19,501,466
Support services	14,517,110	12,835,629
Non-instructional	2,374,752	2,141,982
Sixteenth section	53,244	39,415
Interest on long-term liabilities	<u>2,454,426</u>	<u>2,731,500</u>
<b>Total expenses</b>	<u>39,753,840</u>	<u>37,249,992</u>
<b>Increase in net assets</b>	<u>\$ 4,065,381</u>	<u>\$ 4,841,281</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 Expenses</u>	<u>Net (Expense) Revenue</u>	<u>Total Expenses</u>	<u>Net (Expense) Revenue</u>
Instruction	\$20,354,308	\$(17,221,667)	\$19,501,466	\$(15,705,168)
Support services	14,517,110	(13,632,183)	12,835,629	(11,700,584)
Non-instructional	2,374,752	(134,002)	2,141,982	98,447
Sixteenth section	53,244	(53,244)	39,415	(39,415)
Interest on long-term liabilities	<u>2,454,426</u>	<u>(2,454,426)</u>	<u>2,731,500</u>	<u>(2,731,500)</u>
<b>Total expenses</b>	<u>\$39,753,840</u>	<u>\$(33,495,522)</u>	<u>\$37,249,992</u>	<u>\$(30,078,220)</u>

**HINDS COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED  
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 \$15,721,195, a decrease of \$5,731,841 due primarily to expending of funds for construction costs that were acquired in the prior year. \$15,694,922 or 99% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$26,273 or 1% is reserved to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$1,488,301, a result of conservative fiscal management.

Other Governmental Funds are comprised of several different types of activities. Among the activities accounted for are those related to providing child nutrition services, to support the K-12 academic program, exceptional services to provide for the academic and programmatic needs of our special children, and other state and federal grants and programs. All of these have different guidelines on funding. The fund balance of Other Governmental Funds showed a collective increase due primarily to conservative fiscal management.

The 2003 Construction Fund accounts for the costs of school construction, addition and renovation projects. Bond proceeds were deposited in the 2003 Construction Fund and are then drawn down as payments are made for work completed on the various building projects. The proceeds of bonds can only be used for which the bonds were issued. In 2002-2003, the School District awarded contracts for major building construction projects at the new Byram Middle School site, Bolton-Edwards Middle School, Utica Middle School, as well as at Carver Middle School and Raymond High School for renovations. \$21,000,000 of General Obligation Bonds was sold in 2002-2003, as authorized by the referendum in December 2002. The decrease in fund balance in the 2003 Construction Fund for the fiscal year of \$7,639,762 is a result of the payment of completed work on various building projects. At such time that the District has completed all construction projects in process, the fund balance of this fund should end at \$0. As of June 30, 2005, it is anticipated that all projects in progress will be completed no later than the fall of 2005.

**HINDS COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2005**

**BUDGETARY HIGHLIGHTS**

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

- Budgeted amounts for revenue from local sources were increased to reflect additional Ad Valorem tax dollars anticipated. The District's original budgeted amounts were underestimated for budget purposes until the District received final local property tax assessment figures that were approved by the Hinds County Board of Supervisors.
- Budgeted amounts for revenue from federal sources were increased to reflect receipt of new or additional funds. These amounts were not reflected in the original budgeted amounts because final federal information had not been determined.
- Budgeted amounts for personnel expenditures were decreased due to the costs (e.g. salaries, health insurance, life insurance and taxes) associated with fully staffing our buildings being below expectations.

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.** As of June 30, 2005, the District's total capital assets were \$78,521,069 including school buildings, busses, other school vehicles, and furniture and equipment. This amount represents an increase of \$7,756,722 from the previous year. The increase was due primarily to completed building construction costs. Total accumulated depreciation as of June 30, 2005 was \$16,189,688 and total depreciation expense for the year was \$1,463,565, resulting in total net capital assets of \$62,331,381.

Additional information of the District's capital assets can be found in Note 5 on page 24 of this report.

**Debt Administration.** At June 30, 2005, the District had \$55,449,968 in general obligation bonds and other long-term debt outstanding, of which \$3,270,000 is due within one year.

The District maintains an A2 bond rating.

Additional information of the District's long-term debt can be found in Note 6 on page 25 of this report.

**HINDS COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2005**

**CURRENT ISSUES**

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

The District has committed itself to financial excellence for many years. The operational millage has increased 7.80 millage points over the last 5 years. That results in an average increase in operational millage of 1.56 mills per year, which is well under the State of Mississippi millage cap on increases per year of 3.0 mills. In addition, the District's system of financial planning, budgeting and internal financial controls are well regarded. The District during the aforementioned five years actually reduced its operational millage needs for the support of the schools. The District was also recognized by the State of Mississippi, Office of the State Auditor for excellence in control and accounting for fixed assets. The District plans to continue its sound fiscal management to meet the challenges of the future.

Latest enrollment figures indicate that student enrollment in the District will increase at a rate of approximately 100 students per year. The budget for the next fiscal year has taken into account this growth in both funding and staffing needs.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

If you have questions about this report, contact the Superintendent's Office of the Hinds County School District, 13192 Highway 18, Raymond, MS 39154.

FINANCIAL STATEMENTS

## HINDS COUNTY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2005

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
Assets	
Cash and cash equivalents (Note 3)	\$ 14,524,281
Cash with fiscal agents (Note 3)	109,781
Investments (Note 3)	1,593,470
Due from other governments	1,232,082
Other receivables	80,219
Inventories	25,215
Other assets	34,677
Capital assets, net (Note 5)	62,331,381
	<hr/>
Total Assets	79,931,106
Liabilities	
Accounts payable and accrued liabilities	1,853,315
Deferred revenue	25,215
Interest payable on long-term liabilities	553,268
	<hr/>
Long-term liabilities, due within one year (Note 6)	
Capital related liabilities	3,270,000
	<hr/>
Long-term liabilities, due beyond one year (Note 6)	
Capital related liabilities	52,025,000
Non-capital related liabilities	154,968
	<hr/>
Total Liabilities	57,881,766
Net Assets	
Investment in capital assets, net of related debt	7,036,381
Restricted net assets:	
Expendable:	
School - based activities	3,908,919
Debt service	2,536,503
Forestry improvements	109,633
Unemployment benefits	104,369
Non-expendable:	
Sixteenth section	109,216
Unrestricted	8,244,319
	<hr/>
Total Net Assets	\$ 22,049,340

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

**HINDS COUNTY SCHOOL DISTRICT**  
**Statement of Activities**  
**For the Year Ended June 30, 2005**

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Assets
				Primary Government
				Governmental Activities
Primary Government:				
Governmental Activities:				
Instruction	\$ 20,354,308	838,028	2,294,613	(17,221,667)
Support services	14,517,110	0	884,927	(13,632,183)
Non-instructional	2,374,752	989,939	1,250,811	(134,002)
Sixteenth section	53,244	0	0	(53,244)
Interest on long-term liabilities	2,454,426	0	0	(2,454,426)
<b>Total governmental activities</b>	<b>\$ 39,753,840</b>	<b>1,827,967</b>	<b>4,430,351</b>	<b>(33,495,522)</b>

General Revenues:

Taxes:

General purpose levies	11,060,792
Debt purpose levies	4,426,555

Unrestricted grants and contributions:

State	20,976,504
Federal	119,169
Unrestricted investment earnings	308,189
Sixteenth section sources	557,171
Other	112,523
<b>Total General Revenues</b>	<b>37,560,903</b>

Change in Net Assets 4,065,381

Net Assets - Beginning 17,983,959

Net Assets - Ending \$ 22,049,340

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

**HINDS COUNTY SCHOOL DISTRICT**  
**Balance Sheet - Governmental Funds**  
**June 30, 2005**

	Major Funds				Total Governmental Funds
	General Fund	2003 Construction Fund	Three Mill Repay Fund	Other Governmental Funds	
<b>ASSETS</b>					
Cash and cash equivalents (Note 3)	\$ 6,375,265	0	718,048	6,023,173	13,116,486
Cash with fiscal agents (Note 3)	0	0	0	109,781	109,781
Investments (Note 3)	1,523,331	0	0	70,139	1,593,470
Due from other governments	614,814	0	27,950	589,318	1,232,082
Due from other funds (Note 4)	1,633,237	0	0	36,538	1,669,775
Other receivables	71,250	0	615	8,354	80,219
Advance to other funds (Note 4)	1,058	0	0	0	1,058
Inventories	0	0	0	25,215	25,215
Other assets	0	0	0	34,677	34,677
<b>Total Assets</b>	<b>\$ 10,218,955</b>	<b>0</b>	<b>746,613</b>	<b>6,897,195</b>	<b>17,862,763</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable and accrued liabilities	\$ 174,112	363,439	0	10,517	548,068
Due to other funds (Note 4)	21,029	414,988	757,260	375,008	1,568,285
Deferred revenue	0	0	0	25,215	25,215
<b>Total Liabilities</b>	<b>195,141</b>	<b>778,427</b>	<b>757,260</b>	<b>410,740</b>	<b>2,141,568</b>
<b>Fund Balances:</b>					
<b>Reserved for:</b>					
Advances	1,058	0	0	0	1,058
Inventory	0	0	0	25,215	25,215
<b>Undesignated, reported in:</b>					
General fund	10,022,756	0	0	0	10,022,756
Special Revenue funds	0	0	0	3,908,918	3,908,918
Capital Projects funds	0	(778,427)	0	429,703	(348,724)
Debt Service funds	0	0	(10,647)	2,013,403	2,002,756
Permanent funds	0	0	0	109,216	109,216
<b>Total Fund Balances</b>	<b>10,023,814</b>	<b>(778,427)</b>	<b>(10,647)</b>	<b>6,486,455</b>	<b>15,721,195</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 10,218,955</b>	<b>0</b>	<b>746,613</b>	<b>6,897,195</b>	<b>17,862,763</b>

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

**HINDS COUNTY SCHOOL DISTRICT**  
**Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets**  
**June 30, 2005**

	Amount
Total Fund Balance - Governmental Funds	\$ 15,721,195
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 \$16,189,688.	62,331,381
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (Note 6)	(55,449,968)
3. Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.	(553,268)
	\$ 22,049,340
Total Net Assets - Governmental Activities	\$ 22,049,340

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

**HINDS COUNTY SCHOOL DISTRICT**  
**Statement of Revenues, Expenditures and Changes in Fund Balances (Deficits)**  
**Governmental Funds**  
**For the Year Ended June 30, 2005**

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	2003 Construction Fund	Three Mill Repay Fund		
<b>Revenues:</b>					
Local sources	\$ 12,288,050	133,349	741,200	4,563,617	17,726,216
State sources	19,684,637	0	0	1,291,867	20,976,504
Federal sources	194,602	0	0	4,354,918	4,549,520
Sixteenth section sources	0	0	0	557,171	557,171
<b>Total Revenues</b>	<b>32,167,289</b>	<b>133,349</b>	<b>741,200</b>	<b>10,767,573</b>	<b>43,809,411</b>
<b>Expenditures:</b>					
Instruction	16,647,055	257,831	0	2,510,568	19,415,454
Support services	12,570,224	230,052	0	1,374,247	14,174,523
Non-instructional services	0	0	0	2,222,560	2,222,560
Sixteenth section	0	0	0	53,244	53,244
Facilities acquisition and construction	46,940	7,892,552	0	2,989	7,942,481
<b>Debt service:</b>					
Principal	0	0	470,000	2,735,000	3,205,000
Interest	0	0	403,932	2,126,904	2,530,836
Other	0	0	12	6,952	6,964
<b>Total Expenditures</b>	<b>29,264,219</b>	<b>8,380,435</b>	<b>873,944</b>	<b>11,032,464</b>	<b>49,551,062</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>2,903,070</b>	<b>(8,247,086)</b>	<b>(132,744)</b>	<b>(264,891)</b>	<b>(5,741,651)</b>
<b>Other Financing Sources (Uses):</b>					
Sale of transportation equipment	2,050	0	0	0	2,050
Sale of other property	1,060	0	0	0	1,060
Operating transfers in	0	607,324	0	1,665,190	2,272,514
Operating transfers out	(1,520,680)	0	0	(751,834)	(2,272,514)
Other financing sources	102,801	0	0	0	102,801
Other financing uses	0	0	0	(96,101)	(96,101)
<b>Total Other Financing Sources (Uses)</b>	<b>(1,414,769)</b>	<b>607,324</b>	<b>0</b>	<b>817,255</b>	<b>9,810</b>
<b>Net Change in Fund Balances</b>	<b>1,488,301</b>	<b>(7,639,762)</b>	<b>(132,744)</b>	<b>552,364</b>	<b>(5,731,841)</b>
<b>Fund Balances (Deficits):</b>					
July 1, 2004	8,535,513	6,861,335	122,097	5,948,294	21,467,239
Decrease in reserve for inventory	0	0	0	(14,203)	(14,203)
<b>June 30, 2005</b>	<b>\$ 10,023,814</b>	<b>(778,427)</b>	<b>(10,647)</b>	<b>6,486,455</b>	<b>15,721,195</b>

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

**HINDS COUNTY SCHOOL DISTRICT**  
**Reconciliation of the Governmental Funds Statement of Revenues,**  
**Expenditures and Changes in Fund Balances to the Statement of Activities**  
**For the Year Ended June 30, 2005**

	Amount
Net Change in Fund Balances - Governmental Funds	\$ (5,731,841)
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. Also, an adjustment to correct beginning accumulated depreciation is reported in the statement of activities, but is not reported in governmental funds. Capital asset purchases amounted to \$7,993,421, the adjustment amounted to \$7,495 and the depreciation expense amounted to \$1,463,565. (Note 5 )	6,537,351
2. Gains and losses on sale or disposal of assets are not reported in the governmental funds, but are reported in the statement of activities.	(21,615)
3. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of activities. (Note 6)	3,205,000
4. Decrease in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are increased in the statement of activities.	(14,203)
5. Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the statement of activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net assets differs from the change in fund balances by a combination of the following items:	
Compensated absences	7,315
Change in accrued interest on bonds and notes payable	83,374
Change in Net Assets of Governmental Activities	\$ 4,065,381

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

**HINDS COUNTY SCHOOL DISTRICT**  
**Statement of Fiduciary Net Assets**  
**June 30, 2005**

		Agency Funds
<b>Assets</b>		
Cash and cash equivalents (Note 3)	\$	1,407,795
Total Assets	\$	1,407,795
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$	1,228,167
Due to other funds (Note 4)		101,490
Advance from other funds (Note 4)		1,058
Due to student clubs		77,080
Total Liabilities	\$	1,407,795

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

**HINDS COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005**

(1) Notes to Financial Statements:

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 a "primary government." The school district is governed by a five member board, which each member was elected by the citizens of each defined county district.

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 non-exchange revenues.

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.

**HINDS COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005, CONTINUED**

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.

2003 Construction Fund - This fund is used to account for funds acquired through the issuance of general obligation bonds for the purpose of building and renovating school facilities.

Three Mill Repay Fund - This fund is used to account for funds used to repay principal, interest and other fees associated with the three mill debt issuance.

All other governmental funds not meeting the criteria established for major funds are presented in the other governmental column of **Exhibit C**.

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.

**HINDS COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005, CONTINUED**

D. Account Classifications.

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

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 consist 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.

Investments are reported at fair value.

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.

**HINDS COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005, CONTINUED**

I. Capital Assets.

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

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. 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 5 for details.

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. In the government-wide Statement of Net Assets, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column. See Note 6 for details.

K. Inter-fund Transactions and Balances.

Inter-fund 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) inter-fund loan receivables are reported as "due from other funds" and are considered available expendable resources. Noncurrent portions of long-term inter-fund loan receivables are reported as advances and are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and, therefore, are not available for appropriation.

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.

Inter-fund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 4 for details for interfund transactions, including receivables and payables at year-end.

**HINDS COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005, CONTINUED**

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 borrowing 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:

Reserved for advances - An account used to offset advances recorded in the asset accounts since they do not constitute available spendable resources and are not a component of net current assets.

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

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).

**HINDS COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005, CONTINUED**

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 Government 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, Cash with Fiscal Agents, and Investments:

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 that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$13,116,486 and \$1,407,795, respectively. The carrying amount of deposits reported in the government-wide financial statements was \$14,524,281. The bank balance was \$16,986,782.

*Custodial Credit Risk - Deposits.* Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2005, the district's bank balance of \$16,986,782 was not exposed to custodial credit risk.

Cash with Fiscal Agents

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$109,781.

Investments

As of June 30, 2005, the district had the following investment.

<u>Investment Type</u>	<u>Maturities (in years)</u>	<u>Fair Value</u>	<u>Rating</u>
Mississippi Educational Investment Pool	less than 1	\$1,593,470	None-Trust

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

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

*Custodial Credit Risk - Investments.* Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside

**HINDS COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005, CONTINUED**

party. The district does not have a formal investment policy that addresses custodial credit risk.

*Concentration of Credit Risk.* Disclosures of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2005, the district had investments only in the Mississippi Educational Investment Pool.

(4) Interfund Transactions and Balances

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

	Due From	Due To
Governmental Funds:		
General Fund	\$ 1,633,237	21,029
2003 Construction Fund	0	414,988
Three Mill Repay Fund	0	757,260
Other Governmental Funds	36,538	375,008
Agency Funds	0	101,490
Total	\$ 1,669,775	1,669,775

B. Advances To/From Other Funds:

	Advances To	Advances From
Governmental Fund:		
General Fund	\$ 1,058	0
Agency Funds	0	1,058
Total	\$ 1,058	1,058

C. Transfers In/Out.

	Transfer In	Transfers Out
Governmental Funds:		
General Fund	\$ 0	1,520,680
2003 Construction Fund	607,324	0
Other Governmental Funds	1,665,190	751,834
Total	\$ 2,272,514	2,272,514

**HINDS COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005, CONTINUED**

(5) Capital Assets.

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

	Balance 7-1-2004	Additions	Retirements	Completed Construction	Adjustments	Balance 6-30-2005
Non-depreciable capital assets:						
Land	\$ 37,674	0	0	0	0	37,674
Construction in progress	11,922,854	7,942,481	0	0	0	19,865,335
Total non-depreciable capital assets	<u>11,960,528</u>	<u>7,942,481</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>19,903,009</u>
Depreciable capital assets:						
Buildings	49,095,105	0	0	0	0	49,095,105
Improvements other than buildings	4,016,019	0	0	0	0	4,016,019
Mobile equipment	3,783,486	20,500	153,278	0	0	3,650,708
Furniture and equipment	1,909,209	30,440	83,421	0	0	1,856,228
Total depreciable capital assets	<u>58,803,819</u>	<u>50,940</u>	<u>236,699</u>	<u>0</u>	<u>0</u>	<u>58,618,060</u>
Less accumulated depreciation for:						
Buildings	9,705,890	936,810	0	0	0	10,642,700
Improvements other than buildings	1,103,646	153,864	0	0	0	1,257,510
Mobile equipment	2,459,114	263,449	137,950	0	(7,495)	2,577,118
Furniture and equipment	1,680,052	109,442	77,134	0	0	1,712,360
Total accumulated depreciation	<u>14,948,702</u>	<u>1,463,565</u>	<u>215,084</u>	<u>0</u>	<u>(7,495)</u>	<u>16,189,688</u>
Total depreciable capital assets, net	<u>43,855,117</u>	<u>(1,412,625)</u>	<u>21,615</u>	<u>0</u>	<u>7,495</u>	<u>42,428,372</u>
Governmental activities capital assets, net	<u>\$ 55,815,645</u>	<u>6,529,856</u>	<u>21,615</u>	<u>0</u>	<u>7,495</u>	<u>62,331,381</u>

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 971,925
Support services	352,947
Non-instructional	138,693
Total depreciation expense	<u>\$ 1,463,565</u>

The adjustment of \$7,495 relates to the correction of an error made in the 2004 fiscal year. The depreciation expense reported in the 2004 fiscal year audited financial statements was overstated by this amount. As a result of this error, accumulated depreciation at July 1, 2005, was overstated by \$7,495.

**HINDS COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005, CONTINUED**

Commitments under construction contracts at June 30, 2005, are summarized as follows:

	Remaining Commitment	Required Future Financing
Byram Middle School	\$ 327,077	0
Bolton Edwards Middle School	107,714	0
Utica Middle School	41,664	0
 Total	 \$ 476,455	 0

(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	Adjustments	Balance 6-30-2005	Amounts due within one Year
A. General obligation bonds payable	\$ 37,160,000	0	1,710,000	0	35,450,000	1,910,000
B. Limited obligation bonds payable	8,410,000	0	430,000	0	7,980,000	455,000
C. Certificates of participation payable	8,015,000	0	400,000	0	7,615,000	415,000
D. Three mill notes payable	4,720,000	0	470,000	0	4,250,000	490,000
E. Transportation equipment loans payable	195,000	0	195,000	0	0	0
F. Compensated absences payable	162,283	0	7,315	0	154,968	0
 Total	 \$ 58,662,283	 0	 3,212,315	 0	 55,449,968	 3,270,000

**HINDS COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005, CONTINUED**

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 1996	4.20%-5.40%	11/1/96	1/1/2012	\$ 2,450,000	1,370,000
General Obligation,					
Bonds, Series 1997	4.10%-5.30%	7/1/97	5/1/14	12,010,000	9,880,000
General Obligation,					
Bonds, Series 1998	3.50%-4.75%	11/1/98	4/1/17	4,665,000	3,580,000
General Obligation,					
Bonds, Series 2003	3.50%-5.00%	3/15/03	3/15/18	21,000,000	20,155,000
General Obligation,					
Bonds, Series 2004	2.75%-3.00%	6/1/04	6/1/12	<u>500,000</u>	<u>465,000</u>
Total				<u>\$ 40,625,000</u>	<u>35,450,000</u>

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

	Year Ending			
	June 30	Principal	Interest	Total
2006	\$	1,910,000	1,575,415	3,485,415
2007		1,995,000	1,493,311	3,488,311
2008		2,190,000	1,406,642	3,596,642
2009		2,415,000	1,311,480	3,726,480
2010		2,605,000	1,202,445	3,807,445
2011 - 2015		15,550,000	4,069,754	19,619,754
2016 - 2020		<u>8,785,000</u>	<u>637,575</u>	<u>9,422,575</u>
Total	\$	<u>35,450,000</u>	<u>11,696,622</u>	<u>47,146,622</u>

**HINDS COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005, CONTINUED**

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 14% of property assessments as of October, 2004. This debt will be retired from the 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:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
State aid capital improvement	Varies	3/1/98	3/1/18	\$ <u>9,710,000</u>	<u>7,980,000</u>

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 455,000	379,013	834,813
2007	485,000	351,713	836,713
2008	505,000	327,463	832,463
2009	530,000	304,738	834,738
2010	555,000	280,888	835,888
2011 - 2015	3,170,000	1,002,288	4,172,888
2016 - 2020	<u>2,280,000</u>	<u>219,925</u>	<u>2,499,925</u>
Total	<u>\$ 7,980,000</u>	<u>2,866,028</u>	<u>10,847,428</u>

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

**HINDS COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005, CONTINUED**

C. Certificates of participation payable.

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:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Certificate of Participation Series 1997 (A)	Varies	12/1/97	12/1/17	\$ 4,710,000	3,395,000
Certificate of Participation Series 1999	Varies	4/1/99	4/1/19	<u>5,255,000</u>	<u>4,220,000</u>
Total				<u>\$ 9,965,000</u>	<u>7,615,000</u>

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 415,000	367,195	782,195
2007	435,000	348,755	783,755
2008	450,000	329,095	779,095
2009	475,000	308,520	783,520
2010	495,000	286,343	781,343
2011 - 2015	2,860,000	1,038,072	3,898,072
2016 - 2020	<u>2,485,000</u>	<u>266,749</u>	<u>2,751,749</u>
Total	<u>\$ 7,615,000</u>	<u>2,944,729</u>	<u>1,559,729</u>

This debt will be retired from the public school building fund.

**HINDS COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005, CONTINUED**

D. Three mill notes payable.

Debt currently outstanding is as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Three Mill Notes, Series 2002	4.00%	3/1/02	3/1/17	\$ 5,600,000	4,250,000
Total				<u>\$ 5,600,000</u>	<u>4,250,000</u>

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 490,000	181,805	671,805
2007	510,000	162,205	672,205
2008	535,000	141,805	676,805
2009	555,000	120,405	675,405
2010	405,000	96,818	501,818
2011 - 2015	1,405,000	259,085	1,664,085
2016 - 2020	350,000	24,150	374,150
Total	<u>\$ 4,250,000</u>	<u>986,273</u>	<u>5,236,273</u>

This debt will be retired from the debt service fund.

E. 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 in which the employee's salaries were paid.

**HINDS COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005, CONTINUED**

(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 \$1,873,754, \$1,799,193 and \$1,703,870 respectively, which equaled the required contributions for each year.

(8) 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	\$ 251,346
2007	188,110
2008	180,940
2009	175,041
2010	169,110
2011 - 2015	637,214
2016 - 2020	547,315
2021 - 2025	287,015
2026 - 2030	167,311
Thereafter	<u>300,712</u>
<b>Total</b>	<b>\$ <u>2,904,114</u></b>

**HINDS COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005, CONTINUED**

(9) Risk Management:

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

Participation in Public Entity Risk Pool

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 127 school districts and 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 MSBAWCT contributes quarterly to a fund held in trust by Bancorp South in Jackson. The funds in the trust account are used to pay any claim up to \$400,000. For a claim exceeding \$400,000, MSBAWCT has insurance which will pay the excess up to \$25,000,000. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

(10) 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). Because none of the school districts which share townships with Hinds County School District nor the school district itself filed lists of children as required, no division of sixteenth section revenues has been accrued as a receivable or payable, as the case may be.

Of the townships Hinds County School District shares with other school districts, Hinds County School District has control of some of the sixteenth section property. A portion of the sixteenth section revenues (rents, leases, timber sales, etc.) Hinds County School District received on these sections may be due to other school districts. In addition, on the other townships where another school district controls the sixteenth section property, Hinds County School District may be entitled to a portion of the sixteenth section revenues the other school district received. Because none of the school districts compiled and filed lists of children as state law requires in either the current year or in preceding years, neither the amounts of any liabilities owed to other school districts nor the amounts of any receivables from other school districts can be determined.

**HINDS COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005, CONTINUED**

(11) Deficit Fund Balances of Individual Funds

The deficit fund balances are not in violation of state law. These deficits could have been eliminated with a transfer from the district maintenance fund (General Fund).

A generic fund type listing of the individual funds that have a deficit fund balance, including amounts of the deficit, is as follows:

<u>Fund</u>	<u>Fund Balance</u>
2003 Construction Fund	\$ (778,427)
Three Mill Repay Fund	(10,647)

(12) Trust Certificates.

A trust agreement dated December 1, 1997 and April 1, 1999 was executed by and between Hinds County School District and Trustmark National Bank of Jackson, Mississippi, as trustees.

The trust agreement authorized the issuance of certificates of participation (school facilities improvement project) in the principal amount of \$4,710,000. Approximately \$4,657,825 was used to provide financing for the renovations, equipping, construction and improvements of school facilities (the "project"); the remainder of approximately \$52,175 was used to pay the cost of issuance.

A trust agreement dated April 1, 1999, was executed by and between the Hinds County School District and Trustmark National Bank of Jackson, Mississippi, as trustee.

The trust agreement authorized the issuance of certificates of participation (school facilities improvement project) in the principal amount of \$5,255,000. Approximately \$5,196,903 was used to provide financing for the renovations, equipping, construction and improvements of school facilities (the "project"); the remainder of approximately \$58,097 was used to pay the cost of issuance.

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.

REQUIRED SUPPLEMENTARY INFORMATION

**HINDS COUNTY SCHOOL DISTRICT**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended June 30, 2005**

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	\$ 12,557,677	12,134,759	12,288,050	(422,918)	153,291
State sources	18,765,987	19,574,595	19,684,637	808,608	110,042
Federal sources	50,000	131,564	194,602	81,564	63,038
<b>Total Revenues</b>	<b>31,373,664</b>	<b>31,840,918</b>	<b>32,167,289</b>	<b>467,254</b>	<b>326,371</b>
<b>Expenditures:</b>					
Instruction	16,145,354	16,765,876	16,647,055	620,522	118,821
Support services	11,985,565	12,598,709	12,570,224	613,144	28,485
Facilities acquisition and construction	146,314	46,940	46,940	(99,374)	0
<b>Total Expenditures</b>	<b>28,277,233</b>	<b>29,411,525</b>	<b>29,264,219</b>	<b>1,134,292</b>	<b>147,306</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>3,096,431</b>	<b>2,429,393</b>	<b>2,903,070</b>	<b>(667,038)</b>	<b>473,677</b>
<b>Other Financing Sources (Uses):</b>					
Sale of transportation equipment	0	2,050	2,050	2,050	0
Sale of other property	0	1,060	1,060	1,060	0
Operating transfers in	0	0	0	0	0
Operating transfers out	(1,505,000)	(1,443,233)	(1,520,680)	61,767	(77,447)
Other financing sources	0	102,801	102,801	102,801	0
<b>Total Other Financing Sources (Uses)</b>	<b>(1,505,000)</b>	<b>(1,337,322)</b>	<b>(1,414,769)</b>	<b>167,678</b>	<b>(77,447)</b>
<b>Net Change in Fund Balances</b>	<b>1,591,431</b>	<b>1,092,071</b>	<b>1,488,301</b>	<b>(499,360)</b>	<b>396,230</b>
<b>Fund Balances:</b>					
July 1, 2004	7,501,926	8,535,513	8,535,513	1,033,587	0
June 30, 2005	\$ 9,093,357	9,627,584	10,023,814	534,227	396,230

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

**HINDS COUNTY SCHOOL DISTRICT  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2005**

Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(2) Budget Amendments and Revisions.

The budget is adopted by the school board and filed with the taxing authority. Amendments can be made on the approval of the school board. By statute, final budget revisions must be approved on or before the date established by the Mississippi Department of Education. A budgetary comparison is presented for the general fund consistent with accounting principles generally accepted in the United States of America.

SUPPLEMENTARY INFORMATION

**HINDS COUNTY 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	\$ 196,539
Child nutrition cluster:		
School breakfast program	10.553	332,384
National school lunch program	10.555	1,164,470
Summer food service program for children	10.559	15,548
Total child nutrition cluster		<u>1,512,402</u>
Total U.S. Department of Agricultural		<u>1,708,941</u>
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	974,260
Vocational education - basic grants to states	84.048	141,045
Safe and drug-free schools and communities - state grants	84.186	31,392
State grants for innovative programs	84.298	31,095
Rural education	84.358	84,818
Improving teacher quality - state grants	84.367	265,222
Total		<u>1,527,832</u>
Special education cluster:		
Special education - grants to states	84.027	1,087,509
Special education - preschool grants	84.173	59,719
Total		<u>1,147,228</u>
Total U.S. Department of Education		<u>2,675,060</u>
<u>Other Federal Assistance</u>		
Direct program:		
Reserve Officers' Training Corps	12.XXX	99,765
Total Other Federal Assistance		<u>99,765</u>
Total for All Federal Awards		<u>\$ 4,483,766</u>

NOTES TO SCHEDULE

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

See accompanying independent auditors' report.

**HINDS COUNTY SCHOOL DISTRICT**  
**Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds**  
**For the Year Ended June 30, 2005**

<u>Expenditures</u>	<u>Total</u>	<u>Instruction</u>	<u>Administrative</u>	<u>Other</u>
Salaries and fringe benefits	\$ 24,574,430	17,729,993	2,856,743	3,987,694
Other	<u>24,976,632</u>	<u>1,685,461</u>	<u>285,673</u>	<u>23,005,498</u>
Total	<u>\$ 49,551,062</u>	<u>19,415,454</u>	<u>3,142,416</u>	<u>26,993,192</u>
Total number of students	5,734			
Cost per student	<u>\$ 8,642</u>	<u>3,386</u>	<u>548</u>	<u>4,708</u>

See accompanying independent auditors' report.

**REPORTS ON COMPLIANCE AND INTERNAL CONTROL**

Member  
American Institute of  
Certified Public Accountants  
Society of Louisiana  
Certified Public Accountants

Michael B. Bruno, CPA  
Alcide J. Tervalon, Jr., CPA  
Waldo J. Moret, Jr., CPA  
Paul K. Andoh, Sr., CPA

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

Superintendent and School Board  
Hinds County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Hinds County School District as of and for the year ended June 30, 2005, and have issued our report thereon dated April 1, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the school district's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. 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. A material weakness is a reportable 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. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

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

Compliance

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance that we have reported to management of the school district in a separate letter dated April 1, 2006, which is included in this report.

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.

*Bruno & Tervalon LLP*  
BRUNO & TERVALON LLP  
CERTIFIED PUBLIC ACCOUNTANTS

April 1, 2006

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

Superintendent and School Board  
Hinds County School District

Compliance

We have audited the compliance of the Hinds County 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 auditors' 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, Hinds County 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.

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

**(CONTINUED)**

Internal Control Over Compliance

The management of the Hinds County School District is responsible for establishing and maintaining effective internal control over compliance with laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audits, 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 reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to 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 noted no matters involving internal control over compliance and its operations 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.

*Bruno & Tervalon LLP*  
BRUNO & TERVALON LLP  
CERTIFIED PUBLIC ACCOUNTANTS

April 1, 2006

INDEPENDENT AUDITORS REPORT ON COMPLIANCE WITH  
STATE LAWS AND REGULATIONS

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

Superintendent and School Board  
Hinds County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Hinds County School District as of and for the year ended June 30, 2005, which collectively comprise the Hinds County School District's basic financial statements and have issued our report thereon dated April 1, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed the following instance of noncompliance. The noncompliance is reported in the finding below. The district reported \$-0- of classroom supply funds carried over from previous years.

**EDUCATION ENHANCEMENT FUNDS**

Section 37-61-33(3)(a)(iii) requires the district to maintain information on each teachers allocation, expenditures and balances. During our audit, we noted that the district did not provide a listing of all teachers, the amount allocated to each teacher and the carry forward amount for each teacher for one (1) out of the three (3) schools selected for testing.

We recommend that management of the District adhere with the compliance requirements of Section 37-61-33(3)(a)(iii) and implement policies and procedures to ensure that this condition does not re-occur.

The District concurs with our finding and recommendation and will comply with Section 37-61-33(3)(a)(iii).

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

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

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.

*Bruno & Tervalon LLP*  
BRUNO & TERVALON LLP  
CERTIFIED PUBLIC ACCOUNTANTS

April 1, 2006

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**HINDS COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Section 1: Summary of Auditors' Results

Financial Statements:

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

Federal Awards:

- |  |             |
|--|-------------|
| 4. Type of auditors' report issued on compliance for major federal programs:             | Unqualified |
| 5. Internal control over major programs:   |             |
| a. Material weakness(es) identified?   | No          |
| b. Reportable condition(s) identified that are not considered to be material weaknesses? | No          |
| 6. Any audit finding(s) reported as required by Section __.510(a) of Circular 133?       | A- No       |
| 7. Federal programs identified as major programs:  |             |
| a. Cluster: Child Nutrition Cluster  |             |
| CFDA # 10.553  |             |
| CFDA # 10.555  |             |
| CFDA # 10.559  |             |
| b. Cluster: Special Education  |             |
| CFDA # 84.027  |             |
| CFDA # 84.173  |             |
| c. Title I - Grants to Local Educational Agencies  |             |
| CFDA # 84.010  |             |
| 8. The dollar threshold used to distinguish between type A and type B programs:          | \$300,000   |

**HINDS COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED**

- |   |     |
|---|-----|
| 9. Auditee qualified as a low-risk auditee?   | No  |
| 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 |

Section 2: Financial Statement Findings

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

Section 3: Federal Award Findings and Questioned Costs

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



Superintendent of Education  
Phyfa D. Eiland, Ed.D.

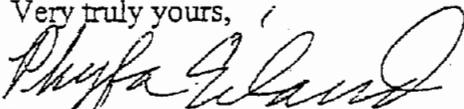
Hinds County School Board  
Greg McMurray, President - District 1  
Ivan Smith - District 2  
Dan Mathews - District 3  
Dayton Callender - District 4  
Dorothy Newell - District 5

AUDITEE'S SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

As required by Section \_\_\_\_\_315(b) of OMB Circular A-133, the Hinds County School District has prepared and hereby submits the following summary schedule of prior audit findings as of June 30, 2005.

<u>Finding</u>	<u>Status</u>
2004-3	Resolved

Very truly yours,

  
Phyfa Eiland  
Superintendent