



STATE OF MISSISSIPPI  
OFFICE OF THE STATE AUDITOR

PHIL BRYANT  
State Auditor

WILLIAM R. DOSS, CPA  
Director, Financial and Compliance Audit Division

LINDA C. REEVES, CPA  
Director, Education Audit Section

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

Unaudited Financial Statements  
For the Year Ended June 30, 2005



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JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

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JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

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## State of Mississippi

OFFICE OF THE STATE AUDITOR  
PHIL BRYANT  
AUDITOR

### INDEPENDENT AUDITOR'S REPORT ON THE BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

Superintendent and School Board  
Jefferson Davis County School District

We were engaged to audit the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Jefferson Davis County School District as of and for the year ended June 30, 2005, which collectively comprise the Jefferson Davis County School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Jefferson Davis County School District's management.

The basic accounting and reporting systems for cash balances, revenues, receivables, disbursements, accounts payable, accrued liabilities, deferred revenue, payroll and capital assets were not effective during the year ended June 30, 2005, which resulted in inadequate accounting records. The magnitude and pervasiveness of the inadequacies in these systems was of such significance to the financial records and overall financial reporting of the district that we were unable to gather sufficient, competent evidential matter to complete our audit. In addition, supporting documents were insufficient to establish account balances for assets, revenues, expenditures/expenses and capital asset balances on the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the school district. Instances were noted in which supporting documentation, including invoices and bid documents, was created by district personnel. The district also did not maintain adequate detailed subsidiary ledgers for its Sixteenth Section Principal Trust Fund investments or lease activity. This lack of sufficient, competent evidential matter was pervasive throughout all financial areas of the district.

Because of the significance of the uncertainties described above, and since the scope of the work as described above was not sufficient, we were unable to express and we do not express an opinion on the financial statements as listed in the table of contents.

In accordance with Government Auditing Standards, we have also issued our report dated March 20, 2007, on our consideration of Jefferson Davis County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing 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 7 through 15 and the Budgetary Comparison Schedule and corresponding notes on pages 45 through 47 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 engagement was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Jefferson Davis County School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*, and is not a required part of the basic financial statements. In addition, the Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds is presented for purposes of additional analysis and is not a required part of the basic financial statements. As explained in the second paragraph of this report, the scope of our work was not sufficient to enable us to express an opinion on the financial statements. Similarly, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the accompanying Schedule of Expenditures of Federal Awards and the Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds.



PHIL BRYANT  
State Auditor



WILLIAM R. DOSS, CPA  
Director, Financial and Compliance Audit Division

March 20, 2007

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

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# JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

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

The discussion and analysis of the Jefferson Davis 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. Information contained in this section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

This discussion and analysis is an 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. Certain comparative information between the current year and the prior year is required to be presented and is included in this discussion and analysis.

### FINANCIAL HIGHLIGHTS

- Total net assets, including the effect of prior period adjustments of \$83,110, decreased \$225,380, which represents a 2% decrease from fiscal year 2004. This decrease is primarily a result of the deficiency of revenues over expenditures in the General Fund. This deficiency is primarily related to expenditures during the fiscal year to fund the 8% increase in salaries and benefits and the purchase of new school buses. Also, a prior period adjustment was needed to properly state investments at year end in the 16<sup>th</sup> Section Principal Funds.
- General revenues accounted for \$12,947,905 in revenue, or 74% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$4,381,868, or 26% of total revenues.
- The District had \$17,638,263 in expenses; only \$4,381,868 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$12,947,905 and beginning net assets were adequate to provide for these programs.
- Among major funds, the General Fund had \$10,983,436 in revenues and \$12,430,546 in expenditures. This resulted in a deficiency of revenues over expenditures in the amount of \$1,477,110 in the General Fund. After net other financing sources of \$477,191, including transfers from the 16<sup>th</sup> Section Principal Funds in the amount of \$365,608, the General Fund's fund balance decreased \$969,919 from the prior year. The General Fund had a negative fund balance of \$1,809,273 at June 30, 2005.

# JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

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

- Capital assets, net of accumulated depreciation, increased by \$475,932. This increase is due primarily to the purchase of school buses, various items of furniture and equipment and cafeteria renovations during the fiscal year.
- Long-term debt decreased by \$306,196 due primarily to principal payments made during the fiscal year on existing long-term debt.

### OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of 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.

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

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

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

# JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

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

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

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

The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School Districts*. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for all major funds. All other non-major funds are combined together and presented in these reports as other governmental funds.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

**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.

**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.

# JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

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

Additionally, a schedule of expenditures of federal awards is required by OMB Circular A-133 and is provided in this report.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

**Net assets.** Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$12,476,221 as of June 30, 2005.

The district's net assets are comprised of 1) net assets invested in capital assets, net of related debt, 2) restricted net assets and 3) unrestricted net assets. \$2,688,540 of the District's net assets reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment and furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending. \$11,697,611 of the District's net assets reflects its restricted net assets. A portion of the restricted net assets is expendable for school based activities, debt service, capital improvements, forestry improvements and unemployment benefits. The remaining portion of the restricted net assets is nonexpendable for 16<sup>th</sup> section investment purposes. The district has a deficit balance in unrestricted net assets of \$1,909,930. This deficit is primarily a result of the deficiency of revenues over expenditures during the current fiscal year and in prior fiscal years. The current year deficiency is related primarily to expenditures during the fiscal year to fund the 8% increase in salaries and benefits and the purchase of new school buses.

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

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

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Current assets	\$ 1,873,445	\$ 1,939,488
Other assets	8,896,355	9,125,244
Capital assets, net	<u>7,562,540</u>	<u>7,086,608</u>
Total Assets	<u>18,332,340</u>	<u>18,151,340</u>
Current liabilities	881,462	168,886
Long-term debt outstanding	<u>4,974,657</u>	<u>5,280,853</u>
Total Liabilities	<u>5,856,119</u>	<u>5,449,739</u>

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

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

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Net Assets:		
Invested in capital assets, net of related debt	2,688,540	1,910,608
Restricted	11,697,611	11,729,335
Unrestricted	<u>(1,909,930)</u>	<u>(938,342)</u>
Total Net Assets	<u>\$ 12,476,221</u>	<u>\$ 12,701,601</u>

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

- Other assets decreased from the previous fiscal year due primarily to the decrease in cash and cash equivalents (restricted assets) in the Sixteenth Section Principal Fund.
- Capital assets increased from the previous fiscal year due primarily to the purchase of school buses, various items of furniture and equipment and cafeteria renovations during the fiscal year.
- Current liabilities increased from the previous fiscal year due primarily to an increase in accounts payable and accrued liabilities and deferred revenue.
- Long-term debt outstanding decreased from the previous fiscal year due primarily to principal payments made during the fiscal year on existing long-term debt.
- Net assets invested in capital assets, net of related debt, increased from the previous fiscal year due primarily to the purchase of assets during the fiscal year and the reduction of long-term debt associated with those capital assets.
- Restricted net assets decreased from the previous fiscal year due primarily to the decrease in amounts restricted for school based activities and sixteenth section purposes.
- Unrestricted net assets decreased from the previous fiscal year due primarily to the deficiency of revenues over expenditures in the General Fund, which caused a further deficit in unrestricted net assets at June 30, 2005. This deficiency is primarily related to expenditures during the fiscal year to fund the 8% increase in salaries and benefits and the purchase of new school buses.

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

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

**Changes in net assets.** The District's total revenues for the fiscal year ended June 30, 2005 were \$17,329,773. The total cost of all programs and services was \$17,638,263. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2005 and comparative data for the fiscal year ended June 30, 2004.

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Revenues:		
Program revenues:		
Charges for services	\$ 394,835	349,091
Operating grants and contributions	3,987,033	5,226,569
General revenues:		
Property taxes	1,937,050	1,804,064
Grants and contributions – not restricted	9,568,051	8,665,349
Other	<u>1,442,804</u>	<u>1,129,667</u>
Total Revenues	<u>17,329,773</u>	<u>17,174,740</u>
Expenses:		
Instruction	9,504,932	9,775,605
Support services	6,270,605	5,569,449
Non-instructional services	1,313,201	1,507,116
Sixteenth section	295,825	309,507
Interest and other expenses on long-term liabilities	<u>253,700</u>	<u>261,609</u>
Total Expenses	<u>17,638,263</u>	<u>17,423,286</u>
Prior period adjustments	<u>83,110</u>	<u>295,772</u>
Increase (Decrease) in Net Assets (Including the effect of prior period adjustments)	<u>(225,380)</u>	<u>47,226</u>
Net Assets, July 1	<u>12,701,601</u>	<u>12,654,375</u>
Net Assets, June 30	<u>\$ 12,476,221</u>	<u>12,701,601</u>

The following are significant current year transactions that have had an impact on the Statement of Activities:

- Program revenues decreased from the previous fiscal year due primarily to a decrease in operating grants and contributions, specifically those related to the 21<sup>st</sup> Century Grant, EHA Part B Grant and Title II Improving Teacher Quality Grant.
- General revenues increased from the previous fiscal year due primarily to an increase in taxes and unrestricted state grants and contributions.

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

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

**Governmental activities.** The following table presents, for the fiscal year ended June 30, 2005 and comparative data for the fiscal year ended June 30, 2004, the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section and interest and other expenses on long-term debt. The table also shows each 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.

	2005		2004	
	Total Expenses	Net (Expense) Revenue	Total Expenses	Net (Expense) Revenue
Instruction	\$ 9,504,932	\$ (7,576,931)	\$ 9,775,605	\$ (7,037,297)
Support services	6,270,605	(4,871,176)	5,569,449	(4,040,215)
Non-instructional services	1,313,201	(306,621)	1,507,116	(251,641)
Sixteenth section	295,825	(247,967)	309,507	(256,864)
Interest on long-term liabilities	253,700	(253,700)	261,609	(261,609)
<b>Total expenses</b>	<b>\$17,638,263</b>	<b>\$(13,256,395)</b>	<b>\$ 17,423,286</b>	<b>\$(11,847,626)</b>

- The net cost of governmental activities for fiscal year 2005 in the amount of \$13,256,395 was financed by general revenue, which is made up of primarily property taxes of \$1,937,050 and state revenue of \$9,378,883.
- Investment earnings accounted for \$398,929 of funding.
- Sixteenth section sources accounted for \$993,911 of funding and resulted primarily from timber sales and oil and gas royalties.

**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 fiscal year June 30, 2005, its governmental funds reported a combined fund balance of \$9,976,315. The net change in fund balance for the fiscal year was a decrease of \$1,089,784 due primarily to expenditures during the fiscal year to fund the 8% increase in salaries and benefits and the purchase of new school buses. A portion of the fund balance is reported by fund type in the unreserved, undesignated section of the Governmental Funds Balance Sheet. The deficit fund balance of the General Fund in the amount of \$1,809,273 is

# JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

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

included in this portion of the balance sheet. The portion of the fund balance reported in the Special Revenue Funds will be used for school based activities. The remaining fund balance is reserved or designated to indicate that it is not available for spending because it has already been committed. This portion of the fund balance is reserved for advances, inventory, unemployment benefits, forestry improvements, capital project purposes, debt service purposes and permanent fund purposes.

The General Fund is the principal operating fund of the District. The General Fund had \$10,983,436 in revenues and \$12,430,546 in expenditures. This resulted in a deficiency of revenues over expenditures in the amount of \$1,477,110 in the General Fund due primarily to expenditures during the fiscal year to fund the 8% increase in salaries and benefits and the purchase of new school buses. After net other financing sources of \$477,191, including transfers from the Sixteenth Section Principal Funds in the amount of \$365,608, the General Fund's fund balance decreased \$969,919 from the prior year. The General Fund had a negative fund balance of \$1,809,273 at June 30, 2005. The net change in fund balance for the Sixteenth Section Principal Fund for the fiscal year was an increase of \$403,165. A prior period adjustment was also made to the Sixteenth Section Principal Fund to properly state investment balances at year end. The net change in fund balance for the Other Governmental Funds for the fiscal year was a decrease of \$523,030 due primarily to the decrease in fund balance of various special revenue funds.

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the District revised the annual operating budget. Significant budget revisions during the fiscal year are as follows:

- Budgeted amounts for revenue from federal sources in the General Fund were decreased to more accurately reflect the actual federal revenue received during the fiscal year. The original budgeted amounts were overstated.
- Budgeted amounts for noninstructional expenditures in the General Fund were increased to more accurately reflect the actual expenditures incurred during the fiscal year. The original budgeted amounts were understated.
- Budgeted amounts for debt service principal expenditures in the General Fund were decreased to zero. The fiscal year principal payments were recorded as a reduction of the advance and not as a debt service expenditure.
- Budgeted amounts for transfers into the General Fund were increased to reflect the increase in transfers from the Sixteenth Section Interest Funds and Sixteenth Section Principal Funds during the fiscal year. The original budgeted amounts were understated.

# JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

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

- Budgeted amounts for transfers out of the General Fund were increased to reflect the transfers to the Special Education Fund and Vocational Education Fund during the fiscal year. The original budgeted amounts were understated.

A schedule showing the original and final budget amounts compared to the District's actual financial activity for the General Fund 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, before depreciation, were \$11,939,414, including land, buildings, building improvements, improvements other than buildings, mobile equipment and furniture and equipment. This amount represents a gross increase of \$807,107 from the previous year. During the fiscal year, the district purchased six school buses, a car, a wrecker, various items of furniture and equipment and completed cafeteria renovations. The district also disposed of several items of furniture and equipment during the fiscal year. Total depreciation expense for the year was \$317,143. Total accumulated depreciation as of June 30, 2005 was \$4,376,874, resulting in total net assets of \$7,562,540.

**Debt Administration.** At June 30, 2005, the District had \$4,974,657 in limited obligation bonds and other long-term debt outstanding, of which \$318,025 is due within one year. During the fiscal year, the district made principal payments of \$302,000 on existing long-term debt.

### **CURRENT ISSUES**

The millage rate increased from 32.26 mills in fiscal year 2004 to 34.74 mills in fiscal year 2005.

Due to revenue cuts from the Mississippi Legislature and a decreased fund balance, management of the school district has expressed some concern for their financial future. Some of the most critical concerns are the increase in the employers match to the Public Employee's Retirement System and the school district having to assume responsibility for a portion of the previously fully funded employee health insurance.

Latest enrollment figures indicate that student enrollment in the District declined from 2,232 students in fiscal year 2004 to 2,147 students in fiscal year 2005. The budget for the next fiscal year has taken into account this reduction 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 Jefferson Davis County School District, P. O. Box 1197, Prentiss, MS 39474.

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JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

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JEFFERSON DAVIS COUNTY SCHOOL DISTRICT  
Statement of Net Assets  
June 30, 2005

Exhibit A

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 1,390,420
Due from other governments	453,797
Inventories	29,228
Restricted assets	8,896,355
Capital assets, net	<u>7,562,540</u>
<b>Total Assets</b>	<u>18,332,340</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	477,009
Unearned revenue	316,476
Interest payable on long-term debt	87,977
Long-term liabilities; due within one year:	
Capital related liabilities	314,000
Non-capital liabilities	4,025
Long-term liabilities; due beyond one year:	
Capital related liabilities	4,560,000
Non-capital liabilities	<u>96,632</u>
<b>Total Liabilities</b>	<u>5,856,119</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	2,688,540
Restricted net assets:	
Expendable:	
School based activities	518,641
Debt service	400,421
Capital improvements	20,294
Forestry improvements	68,686
Unemployment benefits	48,920
Non-Expendable:	
Sixteenth section	10,640,649
Unrestricted	<u>(1,909,930)</u>
<b>Total Net Assets</b>	<u>\$ 12,476,221</u>

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

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT  
Statement of Activities  
For the Year Ended June 30, 2005

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental Activities:					
Instruction	\$ 9,504,932	242,923	1,685,078		(7,576,931)
Support Services	6,270,605		1,399,429		(4,871,176)
Noninstructional services	1,313,201	104,054	902,526		(306,621)
Sixteenth section	295,825	47,858			(247,967)
Interest and other expenses on long-term liabilities	253,700				(253,700)
<b>Total Governmental Activities</b>	<b>\$ 17,638,263</b>	<b>394,835</b>	<b>3,987,033</b>	<b>0</b>	<b>(13,256,395)</b>
General Revenues:					
Taxes:					
Property taxes - general purposes					1,849,825
Property taxes - debt service					87,225
Unrestricted grants and contributions:					
State					9,378,883
Federal					189,168
Unrestricted investment earnings					398,929
Sixteenth section sources					993,911
Other					49,964
<b>Total General Revenues</b>					<b>12,947,905</b>
<b>Change in Net Assets</b>					<b>(308,490)</b>
Net Assets - Beginning					
Prior Period Adjustments					83,110
<b>Net Assets - Restated</b>					<b>12,784,711</b>
<b>Net Assets - Ending</b>					<b>\$ 12,476,221</b>

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

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT  
 Balance Sheet - Governmental Funds  
 June 30, 2005

Exhibit C

	Major Funds		Other Governmental Funds	Total Governmental Funds
	General Fund	Sixteenth Section Principal Fund		
<b>ASSETS</b>				
Cash and cash equivalents	\$ 130,585	4,396,169	1,259,835	5,786,589
Investments		4,379,776	120,410	4,500,186
Due from other governments	161,349	19,559	272,889	453,797
Due from other funds	81,966			81,966
Advances to other funds		1,860,000		1,860,000
Inventories			29,228	29,228
<b>Total Assets</b>	<b>\$ 373,900</b>	<b>10,655,504</b>	<b>1,682,362</b>	<b>12,711,766</b>
<b>LIABILITIES &amp; FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	\$ 323,173	14,855	138,981	477,009
Due to other funds			81,966	81,966
Advances from other funds	1,860,000			1,860,000
Unearned revenue			316,476	316,476
<b>Total Liabilities</b>	<b>2,183,173</b>	<b>14,855</b>	<b>537,423</b>	<b>2,735,451</b>
<b>Fund balances:</b>				
<b>Reserved for:</b>				
Advances		1,860,000		1,860,000
Inventory			29,228	29,228
Unemployment benefits			48,920	48,920
Forestry improvements			68,686	68,686
Capital project purposes			20,294	20,294
Debt service purposes			488,398	488,398
Permanent fund purposes		8,780,649		8,780,649
<b>Unreserved reported in:</b>				
General Fund	(1,809,273)			(1,809,273)
Special Revenue Funds			489,413	489,413
<b>Total Fund Balances</b>	<b>(1,809,273)</b>	<b>10,640,649</b>	<b>1,144,939</b>	<b>9,976,315</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 373,900</b>	<b>10,655,504</b>	<b>1,682,362</b>	<b>12,711,766</b>

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

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

Exhibit C-1

		<u>Amounts</u>
Total Fund Balance - Governmental Funds	\$	9,976,315
Amounts reported for net assets in the Statement of Net Assets (Exhibit A) are different because:		
1. Capital assets are used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Capital assets		11,939,414
Less: accumulated depreciation		(4,376,874)
2. Liabilities not due and payable in the current period are not reported in the funds, as follows:		
Long-term liabilities		(4,974,657)
Accrued interest on debt		<u>(87,977)</u>
Total Net Assets	\$	<u><u>12,476,221</u></u>

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

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT  
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds  
For the Year Ended June 30, 2005

Exhibit D

	Major Funds			Total Governmental Funds
	General Fund	Sixteenth Section Principal Fund	Other Governmental Funds	
<b>Revenues</b>				
Local sources	\$ 2,113,716		236,251	2,349,967
State sources	8,594,365		1,306,077	9,900,442
Federal sources	275,355		3,379,285	3,654,640
Sixteenth section sources		977,880	445,912	1,423,792
Total Revenues	<u>10,983,436</u>	<u>977,880</u>	<u>5,367,525</u>	<u>17,328,841</u>
<b>Expenditures</b>				
Instruction	7,094,949		2,438,005	9,532,954
Support services	5,055,539		1,487,878	6,543,417
Noninstructional services	266,058		1,060,490	1,326,548
Facilities Acquisition and Construction			157,888	157,888
Sixteenth section		209,107	86,718	295,825
Debt service:				
Principal			302,000	302,000
Interest	14,000		244,516	258,516
Other			893	893
Total Expenditures	<u>12,430,546</u>	<u>209,107</u>	<u>5,778,388</u>	<u>18,418,041</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(1,477,110)</u>	<u>768,773</u>	<u>(410,863)</u>	<u>(1,089,200)</u>
<b>Other Financing Sources (Uses)</b>				
Sale of transportation equipment	932			932
Transfers in	938,234		516,506	1,454,740
Transfers out	(461,975)	(365,608)	(627,157)	(1,454,740)
Other financing uses			(1,516)	(1,516)
Total Other Financing Sources (Uses)	<u>477,191</u>	<u>(365,608)</u>	<u>(112,167)</u>	<u>(584)</u>
Net Change in Fund Balances	<u>(969,919)</u>	<u>403,165</u>	<u>(523,030)</u>	<u>(1,089,784)</u>
<b>Fund Balances:</b>				
July 1, 2004, as previously reported	(833,489)	10,337,484	1,485,537	10,989,532
Prior period adjustments & reclassifications	(5,865)	(100,000)	187,629	81,764
July 1, 2004, as restated	<u>(839,354)</u>	<u>10,237,484</u>	<u>1,673,166</u>	<u>11,071,296</u>
Increase (decrease) in reserve for inventory	<u>0</u>	<u>0</u>	<u>(5,197)</u>	<u>(5,197)</u>
June 30, 2005	<u>\$ (1,809,273)</u>	<u>10,640,649</u>	<u>1,144,939</u>	<u>9,976,315</u>

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

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

Exhibit D-1

	<u>Amounts</u>
Net change in fund balances	\$ (1,089,784)
Amounts reported in the Statement of Activities (Exhibit B) are different because:	
1. Capital outlays are reported as expenditures in governmental funds but are not reported as expenses in the Statement of Activities. Instead, costs associated with capital assets are capitalized in the Statement of Net Assets.	792,126
2. Depreciation is not an expenditure in governmental funds but is an expense of allocating the cost of capital assets over their useful lives in the Statement of Activities.	(317,143)
3. In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in governmental funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by a combination of the following items:	
Losses on the sale of capital assets	(397)
4. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	302,000
5. Under the modified accrual basis of accounting used in 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 of accounting, 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 decreases	4,196
Accrued interest on debt decreases	5,709
6. An increase/decrease in the reserve for inventory is reported as a direct increase/decrease to the fund balance in the governmental funds but is a decrease/increase in noninstructional service expenses in the Statement of Activities.	<u>(5,197)</u>
Change in Net Assets of Governmental Activities	<u>\$ (308,490)</u>

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

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT  
Statement of Fiduciary Assets and Liabilities  
For the Year Ended June 30, 2005

Exhibit E

	<u>Agency Funds</u>
<b>Assets</b>	
Cash and cash equivalents	\$ <u>579,503</u>
<b>Total Assets</b>	<b>\$ <u><u>579,503</u></u></b>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	\$ 527,061
Due to student clubs	<u>52,442</u>
<b>Total Liabilities</b>	<b>\$ <u><u>579,503</u></u></b>

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

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2005

(1) Summary of Significant Accounting Policies.

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

A. Financial Reporting Entity.

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the school district's governing board. As defined by accounting principles generally accepted in the United States of America, the school district is considered a "primary government." The school district is governed by a five-member board to which each member was elected by the citizens of each defined county district.

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

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

B. Basis of Presentation.

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

*Government-wide Financial Statements:*

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

## JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

### Notes to the Financial Statements For the Year Ended June 30, 2005

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. 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 as are the Fiduciary Fund Financial Statements. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flows take place. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Program revenues on the Statement of Activities consist primarily of state appropriations and federal awards.

In the fund financial statements, governmental funds 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.

Sixteenth Section Principal Fund - This is a permanent fund used to account for resources from sixteenth section lands 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.

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2005

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

Permanent Funds - Permanent Funds are used to account for resources that are legally restricted to the extent that only earnings, and not the principal, may be used for purposes that support the district's programs.

FIDUCIARY FUNDS

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

D. Account Classifications.

The account classifications used in the financial statements conform to the 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 consists of amounts on deposit in demand accounts and certificates of deposit with maturities of 12 months or less. Cash and cash equivalents are valued at cost.

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2005

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.

I. Capital Assets.

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

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.

	<u>Capitalization Policy</u>	<u>Estimated Useful Life</u>
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	*	*

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2005

(\*) 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. Interfund Transactions and Balances.

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

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

Interfund 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.

L. Equity Classifications.

*Government-wide Financial Statements:*

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

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

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2005

*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.

Reserved for unemployment benefits - An account that represents the fund balance of the unemployment compensation revolving fund which is legally restricted for the payment of unemployment benefits.

Reserved for forestry improvements - An account that represents the fund balance of the Sixteenth Section Forestry Escrow Fund which is legally restricted for improvements to sixteenth section forest lands.

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

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

Reserved for permanent fund purposes - An account that represents the portion of the fund balance of the sixteenth section principal fund which is legally restricted for investment purposes or borrowing by the school board for capital expenditures.

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.

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2005

O. Compensated Absences.

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

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

(2) Changes in Accounting Standards

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

(3) Cash and Cash Equivalents and 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 \$5,786,589 and \$579,503, respectively. The carrying amount of deposits reported in the government-wide financial statements was: Cash and Cash Equivalents of \$1,390,420 and a portion of Restricted Assets in the amount of \$4,396,169. This portion of Restricted Assets represents the cash balance in the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs. The remaining portion of the Restricted Assets is related to investments in the Sixteenth Section Principal Fund and the MAEP Retirement Fund. The bank balance was \$6,910,005.

*Custodial Credit Risk - Deposits.* Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on 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, none of the district's bank balance of \$6,910,005 was exposed to custodial credit risk.

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2005

Investments.

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

<u>Investment Type</u>	<u>Maturities (in years)</u>	<u>Fair Value</u>	<u>Rating</u>
U.S. Treasury notes	1 to 8 years	\$ 1,691,283	Not rated
FHLMC securities	1 to 7 years	911,407	
FNMA securities	1 to 7 years	726,236	
FHLB securities	1 to 7 years	679,548	
GNMA securities	More than 10 years	371,302	
Money market accounts		<u>120,410</u>	
<b>Total Investments</b>		<b>\$ <u>4,500,186</u></b>	

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

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

*Custodial Credit Risk - Investments.* Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk. Of the district's investment balance of \$4,500,186, none of underlying securities are held by the investments counterparty, not in the name of the district.

*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 the following investments:

<u>Issuer</u>	<u>Fair Value</u>	<u>% of Total Investments</u>
FHLMC securities	\$ 911,407	20%
FNMA securities	726,236	16%
FHLB securities	679,548	15%
Other	2,182,995	49%
	<b>\$ <u>4,500,186</u></b>	

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2005

(4) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds.

	<u>Due From</u>	<u>Due To</u>
Governmental Funds:		
General Fund	\$ 81,966	
Other governmental funds		81,966
Total	<u>\$ 81,966</u>	<u>81,966</u>

Interfund loans were made during the fiscal year to cover negative cash balances in various funds.

B. Advances To/From Other Funds.

	<u>Advances To</u>	<u>Advances From</u>
Governmental Funds:		
General Fund	\$	1,860,000
Sixteenth Section Principal Fund	<u>1,860,000</u>	
Total	<u>\$ 1,860,000</u>	<u>1,860,000</u>

[Note: The sixteenth section principal loans payable is not reflected on the Statement of Net Assets because these funds were borrowed by the General Fund from the Sixteenth Section Trust Fund (Permanent Trust) in accordance with Section 29-3-113, Miss. Code Ann. (1972). The revenues and expenditures associated with these transactions were reflected on Exhibit D-1.]

Sixteenth section principal loans payable.

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

Year Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 103,000	96,800	199,800
2007	103,000	50,280	153,280
2008	103,000	46,160	149,160
2009	78,000	42,040	120,040
2010	78,000	38,920	116,920
2011 - 2015	365,000	147,800	512,800
2016 - 2020	265,000	84,800	349,800
2021 - 2025	<u>265,000</u>	<u>31,800</u>	<u>296,800</u>
Total	<u>\$ 1,360,000</u>	<u>538,600</u>	<u>1,898,600</u>

The above amortization schedule does not include a \$500,000 advance due to Sixteenth Section Principal Fund.

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2005

C. Transfers In/Out.

	<u>Transfer In</u>	<u>Transfers Out</u>
Governmental Funds:		
General Fund	\$ 938,234	461,975
Sixteenth Section Principal Fund		365,608
Other governmental funds	<u>516,506</u>	<u>627,157</u>
Total	<u>\$ 1,454,740</u>	<u>1,454,740</u>

(5) Capital Assets.

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

	<u>Balance 7-1-2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>Completed Construction</u>	<u>Adjustments</u>	<u>Balance 6-30-2005</u>
<u>Non-depreciable capital assets:</u>						
Land	\$ 46,600					46,600
Construction in progress	<u>41,812</u>			<u>(41,812)</u>		
Total non-depreciable capital assets	<u>88,412</u>	<u>0</u>	<u>0</u>	<u>(41,812)</u>	<u>0</u>	<u>46,600</u>
<u>Depreciable capital assets:</u>						
Buildings	7,828,292					7,828,292
Building improvements	839,923	157,888		41,812		1,039,623
Improvements other than buildings	66,618	220,000				286,618
Mobile equipment	1,708,395	345,592				2,053,987
Furniture and equipment	<u>600,667</u>	<u>68,646</u>	<u>39,720</u>		<u>54,701</u>	<u>684,294</u>
Total depreciable capital assets	<u>11,043,895</u>	<u>792,126</u>	<u>39,720</u>	<u>41,812</u>	<u>54,701</u>	<u>11,892,814</u>
<u>Less accumulated depreciation for:</u>						
Buildings	2,053,658	136,432				2,190,090
Building improvements	279,689	36,891				316,580
Improvements other than buildings	23,983	11,464				35,447
Mobile equipment	1,270,528	73,337				1,343,865
Furniture and equipment	<u>417,841</u>	<u>59,019</u>	<u>39,323</u>		<u>53,355</u>	<u>490,892</u>
Total accumulated depreciation	<u>4,045,699</u>	<u>317,143</u>	<u>39,323</u>	<u>0</u>	<u>53,355</u>	<u>4,376,874</u>
Total depreciable capital assets, net	<u>6,998,196</u>	<u>474,983</u>	<u>397</u>	<u>41,812</u>	<u>1,346</u>	<u>7,515,940</u>
Governmental activities capital assets, net	<u>\$ 7,086,608</u>	<u>474,983</u>	<u>397</u>	<u>0</u>	<u>1,346</u>	<u>7,562,540</u>

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2005

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$ 204,012
Support services	79,824
Non-instructional	<u>33,307</u>
 Total Depreciation Expense	 \$ <u><u>317,143</u></u>

The capital assets above include significant amounts of buildings which have been valued at estimated historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition.

(6) Long-term Liabilities.

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

	Balance				Balance	Amounts due
	7-1-2004	Additions	Reductions	Adjustments	6-30-2005	within one year
A. Limited obligation bonds payable	\$ 4,070,000		190,000		3,880,000	200,000
B. Certificates of participation payable	791,000		37,000		754,000	39,000
C. Three mill notes payable	315,000		75,000		240,000	75,000
D. Compensated absences payable	<u>104,853</u>		<u>4,196</u>		<u>100,657</u>	<u>4,025</u>
Total	\$ <u><u>5,280,853</u></u>	<u><u>0</u></u>	<u><u>306,196</u></u>	<u><u>0</u></u>	<u><u>4,974,657</u></u>	<u><u>318,025</u></u>

A. 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 bonds	4.4%-6%	02-09-1998	02-01-2018	\$ <u>4,790,000</u>	<u>3,880,000</u>
Total				\$ <u><u>4,790,000</u></u>	<u><u>3,880,000</u></u>

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2005

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

	Year Ending June 30	Principal	Interest	Total
2006	\$	200,000	180,018	380,018
2007		210,000	168,505	378,505
2008		220,000	158,153	378,153
2009		230,000	148,138	378,138
2010		240,000	137,422	377,422
2011 - 2015		1,395,000	500,468	1,895,468
2016 - 2018		<u>1,385,000</u>	<u>127,063</u>	<u>1,512,063</u>
Total	\$	<u>3,880,000</u>	<u>1,419,767</u>	<u>5,299,767</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 Retirement Fund.

B. 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:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Trust certificates, Series 1999	4.9%	04-01-1999	04-01-2019	\$ <u>950,000</u>	<u>754,000</u>
Total				\$ <u>950,000</u>	<u>754,000</u>

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

	Year Ending June 30	Principal	Interest	Total
2006	\$	39,000	36,946	75,946
2007		40,000	35,035	75,035
2008		42,000	33,075	75,075
2009		44,000	31,017	75,017
2010		47,000	28,861	75,861
2011 - 2015		272,000	107,457	379,457
2016 - 2019		<u>270,000</u>	<u>33,810</u>	<u>303,810</u>
Total	\$	<u>754,000</u>	<u>306,201</u>	<u>1,060,201</u>

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2005

This debt will be retired from the Other Debt Fund.

C. 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>
Limited tax note, Series 1998	5%	05-01-1998	05-01-2008	\$ 1,670,000	240,000
Total				\$ <u>1,670,000</u>	<u>240,000</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	\$ 75,000	10,500	85,500
2007	80,000	7,219	87,219
2008	<u>85,000</u>	<u>3,719</u>	<u>88,719</u>
Total	\$ <u>240,000</u>	<u>21,438</u>	<u>261,438</u>

This debt will be retired from the Three Mill Note Retirement Fund.

D. Compensated absences payable.

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

(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 \$901,693, \$874,016 and \$825,986, respectively, which equaled the required contributions for each year.

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2005

(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 therefrom as trust property.

Accordingly, the board shall assure that adequate compensation is received for all uses of the trust lands, except for uses by the public schools. The future rental payments to be made to the school district for the use of school trust lands could not be determined due to lack of complete lease subsidiary ledgers.

(9) Deficit Fund Balance of Individual Funds.

The District Maintenance Fund has a deficit fund balance in the amount of \$1,923,864. The deficit fund balance of the District Maintenance Fund is in violation of state law.

(10) Prior Period Adjustments/Exhibits.

A summary of significant fund equity adjustments is as follows:

Exhibit B - Statement of Activities

<u>Explanations</u>	<u>Amount</u>
1. To adjust investment balances at beginning of fiscal year in the Sixteenth Section Principal Funds	\$ (100,000)
2. To record deferred revenue which was not booked in a prior year.	(6,823)
3. To reclassify prior year expenditure.	(5,865)
4. To record vocational equipment and accumulated depreciation which was not recorded in the prior year.	1,346
5. To correct fund balance for prior year receivable not recorded in MAEP Retirement Fund.	194,507
6. To correct beginning fund balance in School Food Service Fund	(55)
Total	\$ <u><u>83,110</u></u>

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2005

Exhibit D - Statement of Revenues, Expenditures and Changes in Fund Balances

<u>Major Funds</u>	<u>Explanations</u>	<u>Amount</u>
General Fund	To reclassify prior year expenditure.	\$ (5,865)
Sixteenth Section Principal Funds	To adjust investment balances at beginning of fiscal year.	(100,000)
Other governmental funds	To record deferred revenue which was not booked in a prior year.	(6,823)
	To correct fund balance for prior year receivable not recorded and correct beginning fund balance.	194,452
	Total	\$ <u>81,764</u>

(11) 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 BancorpSouth Bank 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.

(12) Trust Certificates.

A trust agreement dated April 1, 1999, was executed by and between the school district and Trustmark National Bank of Jackson, Mississippi, as trustee.

The trust agreement authorized the issuance of trust certificates in the principal amount of \$950,000 for the construction and renovation of school buildings and related facilities and equipment (the "project").

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2005

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

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

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

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

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JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

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

	<u>Budgeted Amounts</u>		Actual (GAAP Basis)	<u>Variances</u> Favorable/Unfavorable	
	<u>Original</u>	<u>Final</u>		<u>Original to Final</u>	<u>Final to Actual</u>
Revenues					
Local sources	\$ 2,257,832	2,329,007	2,113,716	71,175	(215,291)
State sources	8,843,886	8,712,058	8,594,365	(131,828)	(117,693)
Federal sources	147,597	77,597	275,355	(70,000)	197,758
Total Revenues	<u>11,249,315</u>	<u>11,118,662</u>	<u>10,983,436</u>	<u>(130,653)</u>	<u>(135,226)</u>
Expenditures					
Instruction	7,411,482	7,237,578	7,094,949	173,904	142,629
Support services	4,687,048	4,622,874	5,055,539	64,174	(432,665)
Noninstructional services	163,497	269,863	266,058	(106,366)	3,805
Debt service:					
Principal	50,000			50,000	
Interest	14,000	14,000	14,000		
Total Expenditures	<u>12,326,027</u>	<u>12,144,315</u>	<u>12,430,546</u>	<u>181,712</u>	<u>(286,231)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(1,076,712)</u>	<u>(1,025,653)</u>	<u>(1,447,110)</u>	<u>51,059</u>	<u>(421,457)</u>
Other Financing Sources (Uses)					
Sale of transportation equipment	200	1,000	932	800	(68)
Sale of other property	100	100			(100)
Transfers in	914,512	1,264,512	938,234	350,000	(326,278)
Transfers out	(48,000)	(473,401)	(461,975)	(425,401)	11,426
Total Other Financing Sources and Uses	<u>866,812</u>	<u>792,211</u>	<u>477,191</u>	<u>(74,601)</u>	<u>(315,020)</u>
Net Change in Fund Balances	<u>(209,900)</u>	<u>(233,442)</u>	<u>(969,919)</u>	<u>(23,542)</u>	<u>(736,477)</u>
Fund Balances:					
July 1, 2004, as previously reported			(833,489)		
Prior period adjustments & reconciliations			(5,865)		
July 1, 2004, as restated			(839,354)		
June 30, 2005			<u>\$ (1,809,273)</u>		

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT  
 Budgetary Comparison Schedule  
 Sixteenth Section Principal Fund  
 For the Year Ended June 30, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances Favorable/Unfavorable	
	Original	Final		Original to Final	Final to Actual
<b>Revenues</b>					
Local sources	\$ 193,300	193,300			(193,300)
Sixteenth Section Sources	269,400	269,400	977,880		708,480
<b>Total Revenues</b>	<u>462,700</u>	<u>462,700</u>	<u>977,880</u>	<u>0</u>	<u>515,180</u>
<b>Expenditures</b>					
Sixteenth Section	25,966	246,000	209,107	(220,034)	36,893
<b>Total Expenditures</b>	<u>25,966</u>	<u>246,000</u>	<u>209,107</u>	<u>(220,034)</u>	<u>36,893</u>
<b>Excess (Deficiency) of Revenues over Expenditures</b>	<u>436,734</u>	<u>216,700</u>	<u>768,773</u>	<u>(220,034)</u>	<u>552,073</u>
<b>Other Financing Sources (Uses)</b>					
Transfers out	(250,000)	(1,132,045)	( 365,608)	(882,045)	766,437
Other Financing Uses	(300,000)			300,000	
<b>Total Other Financing Sources and Uses</b>	<u>(550,000)</u>	<u>(1,132,045)</u>	<u>(365,608)</u>	<u>(582,045)</u>	<u>766,437</u>
<b>Net Change in Fund Balances</b>	<u>(113,266)</u>	<u>(915,345)</u>	<u>403,165</u>	<u>(802,079)</u>	<u>1,318,510</u>
<b>Fund Balances:</b>					
July 1, 2004, as previously reported			10,337,484		
Prior period adjustments & reconciliations			<u>(100,000)</u>		
July 1, 2004, as restated			<u>10,237,484</u>		
June 30, 2005			<u>\$ 10,640,649</u>		

JEFFERSON DAVIS 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 Schedules present the original legally adopted budget, the final legally adopted budget, the actual data on the GAAP basis, variances between the original budget and the final budget, and variances between the final budget and the actual data.

(2) Budget Amendments and Revisions.

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

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JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

JEFFERSON DAVIS 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	\$ 65,444
Child nutrition cluster:		
School breakfast program	10.553	333,591
National school lunch program	10.555	974,990
Total child nutrition cluster		<u>1,308,581</u>
Total U.S. Department of Agriculture		<u>1,374,025</u>
<u>U.S. Department of Defense</u>		
Direct program:		
Reserve Officers' Training Corps	12.XXX	86,188
Total U.S. Department of Defense		<u>86,188</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.XXX	189,167
Total Federal Communications Commission		<u>189,167</u>
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	1,291,109
Vocational education - basic grants to states	84.048	45,790
Safe and drug-free schools and communities - state grants	84.186	24,789
Fund for the improvement of education	84.215	67,373
Carol M. White Physical Education Program	84.215F	21,945
State Grants for Innovative Programs	84.298	11,632
Education technology state grants	84.318	59,234
Voluntary Public School Choice	84.361	5,422
Rural education	84.358	51,946
Improving Teacher Quality State Grants	84.367	157,812
Grants for state assessments and related activities	84.369	2,290
Total		<u>1,739,342</u>

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
Special education cluster:		
Special education - grants to states	84.027	660,601
Special education - preschool grants	84.173	42,228
Total special education cluster		<u>702,829</u>
Total passed-through Mississippi Department of Education		<u>2,442,171</u>
Total U.S. Department of Education		<u>2,442,171</u>
 Total for All Federal Awards		 <u>\$ 4,091,551</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.

JEFFERSON DAVIS 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>Administration</u>	<u>Other</u>
Salaries and fringe benefits	\$ 12,631,804	8,449,024	1,403,397	2,779,383
Other	<u>5,786,237</u>	<u>1,083,930</u>	<u>218,154</u>	<u>4,484,153</u>
Total	\$ <u>18,418,041</u>	<u>9,532,954</u>	<u>1,621,551</u>	<u>7,263,536</u>
Total number of students	2,147			
Cost per student	\$ <u>8,579</u>	<u>4,440</u>	<u>755</u>	<u>3,383</u>

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

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

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

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

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

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## State of Mississippi

OFFICE OF THE STATE AUDITOR  
PHIL BRYANT  
AUDITOR

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

Superintendent and School Board  
Jefferson Davis County School District

We were engaged to audit the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Jefferson Davis County School District as of and for the year ended June 30, 2005, which collectively comprise the Jefferson Davis County School District's basic financial statements and have issued our report thereon dated March 20, 2007. We did not express an opinion on the governmental activities, each major fund, and the aggregate remaining fund information because of the pervasiveness of the inadequacies in the accounting and financial reporting systems and the significance of certain uncertainties and, since we were unable to rely on the basic accounting systems and were not able to apply other auditing procedures to satisfy ourselves.

### Internal Control Over Financial Reporting

During our engagement to audit the financial statements of the Jefferson Davis County School District, we considered the school district's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions 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 material weaknesses. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design and operation of the internal control over financial reporting that, in our judgment, could adversely affect Jefferson Davis County School District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the Schedule of Findings and Questioned Costs as finding numbers 05-01, 05-02, 05-03, 05-04, 05-05, 05-06, 05-07, 05-08, 05-09, 05-10, 05-11, 05-12, 05-13, 05-14, 05-15, 05-16, and 05-17.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider finding numbers 05-01, 05-02, 05-03, 05-04, 05-05, 05-06, 05-07, 05-08, 05-09, 05-10, 05-11, 05-12 and 05-13 to be material weaknesses.

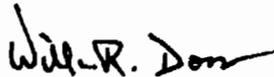
Compliance and Other Matters

During our engagement to audit the financial statements of the Jefferson Davis County School District, 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 engagement and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards* that are described in the accompanying Schedule of Findings and Questioned Costs as finding numbers 05-01, 05-02 and 05-03. We also noted certain immaterial instances of noncompliance that we have reported to management of the school district in a separate letter dated March 20, 2007, which is included in this report.

This report is intended solely for the information 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.



PHIL BRYANT  
State Auditor



WILLIAM R. DOSS, CPA  
Director, Financial and Compliance Audit Division

March 20, 2007



## State of Mississippi

OFFICE OF THE STATE AUDITOR  
PHIL BRYANT  
AUDITOR

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

Superintendent and School Board  
Jefferson Davis County School District

### Compliance

We were engaged to audit the compliance of the Jefferson Davis 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 programs for the year ended June 30, 2005. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the schools district's management.

Because of the pervasiveness of the inadequacies in the accounting and financial reporting systems and the significance of certain uncertainties and, because we were unable to rely on the basic accounting systems and were not able to apply other auditing procedures to satisfy ourselves, the scope of our work was not sufficient to enable us to express an opinion and we do not express an opinion on the district's compliance with the requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of the district's major federal programs for the year ended June 30, 2005. However, we noted items that should be brought to management's attention. See finding numbers 05-18 and 05-20 in the Schedule of Findings and Questioned Costs.

### Internal Control Over Compliance

Management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. During our engagement to audit the district's compliance with requirements of laws, regulations, contracts and grants applicable to federal programs, we considered the district's internal controls over compliance with requirements that could have a direct and material effect on a major federal program.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design and operation of the internal control over compliance that, in our judgment, could adversely affect Jefferson Davis County School District's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the Schedule of Findings and Questioned Costs as finding numbers 05-18, 05-19 and 05-20.

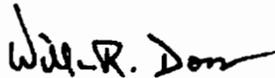
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud in amounts 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.

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. However, of the reportable conditions described above, we consider finding numbers 05-18, 05-19 and 05-20 to be material weaknesses.

This report is intended solely for the information 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.



PHIL BRYANT  
State Auditor



WILLIAM R. DOSS, CPA  
Director, Financial and Compliance Audit Division

March 20, 2007

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

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

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## State of Mississippi

OFFICE OF THE STATE AUDITOR  
PHIL BRYANT  
AUDITOR

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

Superintendent and School Board  
Jefferson Davis County School District

We were engaged to audit the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Jefferson Davis County School District as of and for the year ended June 30, 2005, which collectively comprise Jefferson Davis County School District's basic financial statements and have issued our report thereon dated March 20, 2007. We did not express an opinion on the governmental activities, each major fund, and the aggregate remaining fund information because of the pervasiveness of the inadequacies in the accounting and financial reporting systems and the significance of certain uncertainties and, since we were unable to rely on the basic accounting systems and were not able to apply other auditing procedures to satisfy ourselves.

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 instances of noncompliance as identified in Finding 1 below. The district reported \$28,024 of classroom supply funds carried over from previous years.

The results of procedures performed to test compliance with certain other state laws and regulations during our engagement to audit of the financial statements disclosed the following immaterial instances of noncompliance with other state laws and regulations. Our findings and recommendations and your responses are as follows:

1. Finding

In testing for compliance concerning the Education Enhancement Fund expenditures, the following statute and policy are applicable:

- Mississippi State Department of Education board policy DFBI states, "At a minimum, each school principal shall maintain a listing of all teachers, the amount allocated to each teacher, the carry forward amount for each teacher, a copy of each spending plan and a copy of all requisitions or purchase requests submitted by the teacher."

- Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), specifies, "...local school districts shall allocate classroom supply funds equally among all classroom teachers in the school district." It also defines "teacher" as "...an employee of the school board of a school district who is required by law to obtain a teacher's license from the State Department of Education and who is assigned to an instructional area of work as defined by the department, but shall not include a federally-funded teacher."
- Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), states, "It is the intent of the Legislature that all classroom teachers shall be involved in the development of a spending plan that addresses individual classroom needs and supports the overall goals of the school regarding supplies, instructional materials, equipment, computers or computer software, including the type, quantity and quality of such supplies, materials and equipment. This plan shall be submitted in writing to the school principal for approval."

The following conditions were found concerning Education Enhancement Funds:

- We noted that the principals could not provide purchase requisitions for 53 of 89 purchase orders tested, which totaled \$7,659 of \$39,866. Of the remaining 36, ten purchase requisitions totaling \$808 were not signed by the teacher requesting the classroom instructional supplies or materials.
- The district was unable to provide documentation to support that they allocated the Education Enhancement Funds equally. Due to the lack of controls surrounding purchasing, some teachers spent more than their allocation. We also found that 17 of 74 teachers receiving Education Enhancement Funds tested were federally-funded, which is unallowable.
- Spending plans were not prepared when classroom supplies and material funds were carried over from year to year.

#### Recommendation

The district should comply with Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), and require the teachers to develop spending plans and submit them to the principal. The principal should maintain a file of the teacher's spending plans and any documentation necessary for pooled accounts and as required by the Mississippi State Department of Education board policy DFBI. Additionally, federally-funded teachers should not receive Education Enhancement Funds.

#### Response

The district will comply with Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), and insure that purchase requisitions are properly signed, maintained and made available for audit. The district will also maintain for audit supporting documentation to support the allocation of Education Enhancement Funds equally among teachers. Only those teachers that are eligible for Education Enhancement Funds will receive allocations and the spending of such funds will be limited to each individual teacher's allocated amount. The district will further insure that the carryover of Education Enhancement Funds for a teacher will only be allowed based on a properly approved spending plan.

## 2. Finding

Section 37-57-107, Miss. Code Ann. (1972), states taxes levied for school district purposes shall not exceed the aggregate receipts from those sources during any one of the immediately preceding three fiscal years.

During our test of limitations of ad valorem taxes and homestead exemption reimbursements, we noted the district received more ad valorem tax and homestead exemption reimbursements than the amount allowable by Section 37-57-107, Miss. Code Ann. (1972). The excess is due to homestead exemption revenue not being remitted timely to the school district by the county. Due to the calculation indicating a violation of Section 37-57-107, Miss. Code Ann. (1972), the excess collected during the 2004-2005 year in the amount of \$130,160 should have been placed in escrow.

Recommendation

The district should comply with Section 37-57-107, Miss. Code Ann. (1972), and escrow the excess ad valorem revenue collected.

Response

The district will insure compliance with Section 37-57-107, Miss. Code Ann. (1972), and escrow any excess ad valorem tax revenue collected.

3. Finding

Section 37-61-19, Miss. Code Ann. (1972), requires that a fund be budgeted before any expenditures are incurred in that fund.

We found that expenditures were incurred in two funds that had not been budgeted.

Recommendation

The district should comply with Section 37-61-19, Miss. Code Ann. (1972), which requires a fund to be budgeted before any expenditures are incurred in that fund.

Response

The district will insure compliance with Section 37-61-19, Miss. Code Ann. (1972). Budgets for each and every fund will be prepared and approved by the school board prior to incurring expenditures for the fund.

4. Finding

The Mississippi Department of Finance and Administration, Office of Purchasing and Travel procurement manual Section 10.115.05 states, "... Governing authorities desiring to obtain a merchant specific credit card shall submit to their governing board for approval, written justification for the need of a merchant specific credit card. Approval of such action shall be placed on the minutes of the board of the governing authority."

We found that the district had an open line of credit, or a "credit card" with an office supply company. Per our review of the minutes, we could find no authorization by the school board for the district to have such an account. Failure to follow regulations as promulgated by the Department of Finance and Administration could result in excessive and unallowable expenses being incurred by the district.

Recommendation

Prior to obtaining any open line of credit or credit card, written justification should be provided to the school board concerning all requests for merchant specific lines of credit, and their approval or disapproval should be included in the school board's minutes.

### Response

The district will require a properly approved purchase requisition and purchase order in acquiring goods and services on behalf of the district. Credit cards will not be authorized for use by any employee of the district. Credit card providers of any previously acquired credit cards in the name of the district will be notified of immediate cancellation of the card.

### 5. Finding

Section 31-7-13(c)(I)(1), Miss. Code Ann. (1972), states purchases which involve an expenditure of more than \$15,000 exclusive of freight and shipping charges, may be made from the lowest and best bidder after advertisement for competitive bids once each week for two consecutive weeks in a regular newspaper published in the county or municipality in which such agency or governing authority is located.

Section 31-7-13(c)(iii), Miss. Code Ann. (1972), states in the case of governing authorities, before the notice shall be published or posted, the plans or specifications for the construction or equipment being sought shall be filed with the clerk of the board or the governing authority. In addition to these requirements, a bid file shall be established which shall indicate those vendors to whom such solicitations and specifications were issued, and such file shall also contain such information as is pertinent to the bid.

During our test work of purchases made in excess of \$15,000, the following was noted concerning the purchase of a used 1996 wrecker:

- An ad was placed in the local newspaper in June 2004, soliciting bids for a used wrecker;
- The ad stated to contact the district for specifications;
- Bids were to be received until July 16, 2004;
- Copies of the bids received, if any, were not provided to auditors;
- Copies of the specifications for the purchase was not provided to auditors;
- Acceptance or rejection of the bids received relative to the July 16, 2004, deadline for submission of bids was not addressed in the board minutes; and,
- The board minutes dated November 8, 2004, awarded the purchase of a used wrecker based upon a written quote dated October 14, 2004.

### Recommendation

The district should comply with Section 31-7-13, Miss. Code Ann. (1972), and follow all of the requirements pertaining to purchasing and bid laws. Documentation of all specifications and bids should be maintained on file by the school district.

### Response

The district will comply with Section 31-7-13, Miss. Code Ann. (1972). Documentation of all specifications and bids will be maintained on file by the district.

6. Finding

Section 25-1-87, Miss. Code Ann. (1972), states that all motor vehicles owned or leased by the State of Mississippi or any agency, department or political subdivision thereof, which shall include counties and municipalities, when such agency or department or political subdivision, which shall include counties and municipalities, is supported wholly or in part by public taxes or by appropriations from public funds, shall have painted on both sides in letters at least three (3) inches in height, and on the rear in letters not less than one and one-half (1½) inches in height, the name of the state agency or department, or political subdivision, which shall include counties and municipalities, in a color which is in contrast with the color of the vehicle; provided, however, that a permanent decal or design may be used in lieu of paint if it is at least twelve (12) inches in height and twelve (12) inches in width on both sides of the vehicle with the name of the municipality within or across the permanent decal or design, and the permanent design or decal shall be in a color or colors which are in contrast with the color of the vehicle. The district was not in compliance with regard to the marking of vehicles. A Chevy C1500 pickup driven by the assistant superintendent had no markings on the vehicle. A 1996 wrecker purchased in November 2004, was not marked until approximately June 2006. The current markings are not in compliance because the letters are smaller than what is required by state law. The district received a property audit by the Office of the State Auditor in January 2005, which indicated that the 1996 wrecker was not marked.

Recommendation

The district's management should comply with Section 25-1-87, Miss. Code Ann. (1972), to insure that school property is properly identified.

Response

The district will comply with Section 25-1-87, Miss. Code Ann. (1972). School vehicles and other property will be properly identified.

7. Finding

Section 37-39-21, Miss. Code Ann. (1972), states that the purchasing agent of any school board, before entering upon his official duties in such capacity, shall furnish a good and sufficient surety bond in the penal sum of Fifty Thousand Dollars (\$50,000), with sufficient surety. Such bond shall be payable, conditioned and approved in the manner provided by law, and shall be filed and recorded in the office of the clerk of the chancery court in which the school district is located.

During our tests of surety bonds, we noted an individual who was functioning as a purchasing agent throughout the fiscal year for the Jefferson Davis County School District was not covered by a surety bond until April 22, 2005. This individual was designated as a purchasing agent by local school board policy DJEA, which was approved on September 8, 2003.

Recommendation

We recommend the district comply with Section 37-39-21, Miss. Code Ann. (1972), and purchase an individual surety bond in the amount of \$50,000 for each approved purchasing agent and insure that each bond is recorded in the chancery clerk's office.

Response

The district will insure compliance with Section 37-39-21, Miss. Code Ann. (1972). The district will purchase and maintain a surety bond for each purchasing agent as authorized by the school board. The district will also insure that each bond is recorded in the chancery clerk's office.

8. Finding

Section 29-3-91, Miss. Code Ann. (1972), states, “(1) Except as otherwise provided in subsection ... acquires, by condemnation or otherwise any easement or right-of-way across any sixteenth section land or lieu land, then adequate compensation therefor shall be paid by the party acquiring the same to the board of education concerned; and the sum or sums so received shall be placed in the principal fund or funds of the school district or districts concerned.”

During audit tests and procedures, we identified contracts with two entities for easements and right-of-ways for which the appropriate documentation was not provided to indicate that adequate compensation was being charged by the district.

Recommendation

The district should comply with Section 29-3-91, Miss. Code Ann. (1972). The school board should insure that adequate compensation is collected and recorded for all easements and right-of-ways entered into.

Response

The district will comply with Section 29-3-91, Miss. Code Ann. (1972). The district will insure that adequate compensation is collected and recorded for all easements and right-of-ways approved by the school board.

9. Finding

Section 29-1-3(3), Miss. Code Ann. (1972), states, “Any state, county or municipal official shall supply annually to state land commissioner (Secretary of State) such sixteenth section management information as shall be requested by the commissioner. Such information shall include, but not limited to, the following items pertaining to all new leases, rights of way, easements and sales of school trust land: the number of acres in each parcel; the consideration paid for each transaction; the length and expiration of each lease, easement, or right-of-way; and, the use to be made of each parcel. The applicable public official shall likewise report information requested by the state land commissioner upon principal fund investments.”

During our tests of sixteenth section leases, we noted 16 hunting and fishing leases which had not been reported to the Secretary of State’s Office as required by Section 29-1-3(3), Miss. Code Ann. (1972).

Recommendation

The district should comply with Section 29-1-3(3), Miss. Code Ann. (1972), which requires all sixteenth section leases be accurately reported to the Secretary of State.

Response

The district will comply with Section 29-1-3(3), Miss. Code Ann. (1972), and insure that all sixteenth section leases are accurately reported to the Secretary of State.

10. Finding

Section 29-3-57, Miss. Code Ann. (1972), states, “It shall be the duty of the superintendent of education to collect promptly all rentals due and all principal and interest due upon loans and investments of Sixteenth Section Principal Trust Funds. Upon a sixty (60) day default in payment of any rentals according to the terms of such lease, the lease shall be declared terminated unless the board of education finds extenuating circumstances were present....”

During test work, we identified 19 of 72 leases in which rental payments tested were more than 60 days past due with no documentation that board action had been taken as required by Section 29-3-57, Miss. Code Ann. (1972).

Recommendation

The district should comply with Section 29-3-57, Miss. Code Ann. (1972), when leases are in default for more than 60 days from the date due by declaring the lease terminated unless the board of education finds extenuating circumstances are present and records such action in the school board minutes.

Response

The district will comply with Section 29-3-57, Miss. Code Ann. (1972), and insure that when leases are in default for more than 60 days from the due date, the district will declare the lease terminated unless the school board finds that extenuating circumstances are present and such action is recorded in the school board minutes.

11. Finding

Section 29-3-71, Miss. Code Ann. (1972), states, "Sixteenth section lands reserved for the use of schools, or lands reserved or granted in lieu of or as a substitute for the sixteenth sections, shall be liable, after the same shall have been leased, to be taxed as other lands are taxed during the continuance of the lease, but in case of sale thereof for taxes, only the title of the lessee or his heirs or assigns shall pass by the sale." In addition, the standard lease agreement used by the district between the lessee and lessor states, "Lessee shall pay all taxes levied, if any, on said property in time to prevent default."

During our test work on 72 sixteenth section leases, we discovered annual property taxes had not been paid for seven of these; however, the lease agreements had not been terminated. This finding has appeared in the auditor's report for the last two years.

Recommendation

The school board, superintendent, and management should comply with Section 29-3-71, Miss. Code Ann. (1972), and terminate sixteenth section leases when lessees do not pay property taxes on sixteen section lands leased.

Response

The district will comply with Section 29-3-71, Miss. Code Ann. (1972). When sixteenth section lessees do not pay property taxes on sixteenth section lands, the superintendent and the school board will terminate the lease.

12. Finding

Section 29-3-57, Miss. Code Ann. (1972), states, "The superintendent of education shall keep a current docket as to the expiration date of all leases on sixteenth section lands; . . . It shall be the duty of the superintendent of education to supervise generally the administration of all sixteenth section lands within his jurisdiction.... "

Our test work identified that the district did not have a current docket of all leases on sixteenth section lands. Since the district did not have a current docket, taxes were not properly assessed and collected by the tax collector's office.

Recommendation

Management should comply with Section 29-3-57, Miss. Code Ann. (1972), to maintain a current and accurate docket of all leases of sixteenth section lands and communicate this information to the chancery clerk's office for proper recording of the lease.

Response

The district's management will comply with 29-3-57, Miss. Code Ann. (1972). An accurate docket of all leases of sixteenth section lands will be maintained by the district and the recordings in this docket will be communicated to the chancery clerk's for the proper recording of the lease.

13. Finding

Section 37-61-21, Miss. Code Ann. (1972), states, "...The revised portions of the budgets shall be incorporated in the minutes of the school board by spreading them on the minutes or by attaching them as an addendum. Final budget revisions, pertinent to a fiscal year, shall be approved on or before the date set by the State Board of Education for the school district to submit its financial information for that fiscal year...."

During our test of budgetary compliance, we found that the board minutes on August 8, 2005, documented approval of the amended budget. The amended budget was dated by the computer system as August 26, 2005, therefore no substantiating evidence was available to indicate that the amended budget was actually presented to the board for approval.

Recommendation

The budget presented to the board of education should be the same as the one reflected on the school board's minutes as required by Section 37-61-21, Miss. Code Ann. (1972).

Response

The district will insure compliance with Section 37-61-21, Miss. Code Ann. (1972). The budget presented to the school board will be substantiated as being the same one reflected in the board minutes as being approved by the school board.

14. Finding

Article 4 Section 96 of the Mississippi State Constitution prohibits donations to any public employee.

The school board approved on August 12, 2002, payment of health and life insurance premiums by the district when an employee has been given an Approved Leave of Absence Without Pay for a maximum of twelve months.

During our tests of payroll, we found that health and life insurance premiums had been paid, in the total amount of \$3,685 with school board approval, for two employees after the protection afforded to them under the Family Medical Leave Act had expired. We find no statutory authority for payments of health and life insurance premiums under these circumstances and consider the payments a donation of public funds.

Recommendation

The district should comply with Article 4 Section 96 of the Mississippi State Constitution. The district should implement controls to insure that employee benefits paid by the district are authorized by state statute or federal law. Repayment should be made to the reimburse the district for these expenditures for which there was no statutory authority.

Response

The district will insure compliance with Article 4 Section 96 of the Mississippi State Constitution by insuring that employee benefits paid by the district are authorized by statute or federal law. The district will take steps to collect repayments to the district for improper payment of employee benefits from the recipient of the benefits.

15. Finding

Article 4 Section 96 of the Mississippi State Constitution prohibits donations to any public employee.

We found purchases had been made which constitute a donation under the Mississippi State Constitution for flowers, plants and gifts in the amount of \$931. Flowers, plants and gifts were purchased from the following:

- Flowers for funerals, a get-well basket, as well as a gift for an employee totaling \$150 was paid from the activity fund for Bassfield High School.
- Purchases of flowers for \$80 were paid from the activity fund for Prentiss High School.
- Flowers for a funeral in the amount of \$30 was paid from the activity fund for Carver Elementary School.
- An additional \$671 was paid from a fiduciary account for flowers for funerals and a get-well plant. However, the source of deposits into this fiduciary account titled the "Courtesy Fund" included \$140 from employees, fund raisers for candy to kindergarten students and magazine sales according to the general ledger. The revenue earned through these sales is considered public funds and should not have been deposited into a fiduciary account.

Recommendation

The district should comply with Article 4 Section 96 of the Mississippi State Constitution. The district should implement controls to insure that public funds are properly accounted for in the appropriate fund and are not used for unauthorized purposes. Repayment should be made to reimburse the district for these expenditures for which there was no statutory authority.

Response

The district will insure compliance with Article 4 Section 96 of the Mississippi State Constitution by insuring that donations are not made to any public employee. In addition, the district will implement controls to insure that revenues earned from fundraisers resulting from the sale of candy to kindergarten students and magazine sales are properly recorded in the activity fund of the school and expended according to authorized guidelines. The district will take steps to insure the repayment to the district for unauthorized expenditures of public funds.

16. Finding

Article 4 Section 96 of the Mississippi State Constitution prohibits donations to any public employee.

In March 2005, the service for a personal cell phone for a principal was added to the cellular phone account of J. E. Johnson Elementary School. When the phone bill was received, the portion of the bill relating to the personal cell phone was removed and the principal paid the personal portion of the bill. Employees are prohibited from obtaining personal benefits by utilizing the district's negotiating power. Additionally, employees are prohibited from obligating the district for personal benefit.

Recommendation

The district should implement controls which would prohibit personnel from obligating the district for personal expenses.

Response

The district will insure that expenditures paid by the district are necessary obligations that benefit the district and not to support the personal obligations of its employees.

17. Finding

Section 31-7-305(2), Miss. Code Ann. (1972), states, "All public bodies that are authorized to issue checks in payment of goods and services and are not required to issue requisitions for payment to the State Fiscal Management Board shall mail or otherwise deliver such checks no later than forty-five (45) days after receipt of the invoice, and receipt inspection and approval of the goods or services; however, in the event of a bona fide dispute, the public body shall pay only the amount not disputed."

During our tests of expenditures, we noted 13 (totaling \$10,250) of 318 invoices which were not paid within 45 days of invoice date and no documentation existed that the claim was disputed.

Recommendation

The district should comply with Section 31-7-305(2), Miss. Code Ann. (1972). Invoices must be approved and paid within 45 days of invoice date as described in Section 31-7-305(2), Miss. Code Ann. (1972).

Response

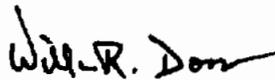
The district will comply with Section 31-7-305(2), Miss. Code Ann. (1972), and insure that invoices are approved and paid within 45 days of the invoice, unless support for dispute of the claim is properly documented.

The Office of the State Auditor or a public accounting firm will review, on the subsequent year's audit engagement, the findings 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.



PHIL BRYANT  
State Auditor



WILLIAM R. DOSS, CPA  
Director, Financial and Compliance Audit Division

March 20, 2007

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

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JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2005

Section 1: Summary of Auditor's Results

Financial Statements:

- |    |   |            |
|----|---|------------|
| 1. | Type of auditor's report issued on the financial statements:                          | Disclaimer |
| 2. | Material noncompliance relating to the financial statements?                          | Yes        |
| 3. | Internal control over financial reporting:  |            |
| a. | Material weakness(es) identified?   | Yes        |
| b. | Reportable condition(s) identified that are not considered to be material weaknesses? | Yes        |

Federal Awards:

- |     |  |               |
|-----|--|---------------|
| 4.  | Type of auditor's report issued on compliance for major federal programs:  | Disclaimer    |
| 5.  | Internal control over major programs:  |               |
| a.  | Material weakness(es) identified?  | Yes           |
| b.  | Reportable condition(s) identified that are not considered to be material weaknesses?  | None Reported |
| 6.  | Any audit finding(s) reported as required by Section __.510(a) of Circular A-133?  | Yes           |
| 7.  | Federal programs identified as major programs:<br>Title I Grants to Local Educational Agencies<br>CFDA # 84.010  |               |
| 8.  | The dollar threshold used to distinguish between type A and type B programs:   | \$ 300,000    |
| 9.  | Auditee qualified as a low-risk auditee?   | Yes           |
| 10. | Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section __.315(b) of OMB Circular A-133? | No            |

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2005

Section 2: Financial Statement Findings

Material Non-Compliance/Material Weaknesses

05-01. Finding

Section 37-61-19, Miss. Code Ann. (1972), states, "It shall be the duty of the superintendents of schools and the school boards of all school districts to limit the expenditure of school funds during the fiscal year to the resources available. It shall be unlawful for any school district to budget expenditures from a fund in excess of the resources available within that fund. Furthermore, it shall be unlawful for any contract to be entered into or any obligation incurred or expenditure made in excess of the resources available for such fiscal year."

Budgetary controls were not in place to prevent the district from expending funds in excess of its available resources during the fiscal year. For the General Fund, a deficit fund balance of \$833,489 was reported in the audit for the fiscal year ended June 30, 2004. At June 30, 2005, the deficit had increased to \$1,008,294 in the client-prepared financial statements. This deficit does not include the \$500,000 transfer of Sixteenth Section Principal Trust Funds referred to in Finding 05-02.

Management had a lack of budgetary controls that had resulted in spending more for recurring expenditures than the revenue being generated, and as a result, the district had no fund balance to meet current obligations.

Recommendation

The district should comply with Section 37-61-19, Miss. Code Ann. (1972), which requires the district's expenditures during the school year not to exceed resources available.

05-02. Finding

Section 29-3-113, Miss. Code Ann. (1972), as it relates to borrowing of Sixteenth Section Principal Trust Funds states, "The board of education shall have the authority to borrow such funds at a rate of interest not less than four percent per annum and for a term not exceeding twenty years, for the erection, equipment or repair of said district schools, to provide local funds for any building project approved by the State Board of Education."

We noted that the school board authorized a retroactive loan from the Sixteenth Section Principal Trust Fund in the amount of \$1,060,000 at a 4% interest rate for the term of 20 years for the purpose of constructing, erecting and equipping school buildings. Management was asked to provide documentation to support the loan and was only able to provide documentation for expenditures in the amount of \$153,114.31 that qualified under Section 29-3-113, Miss. Code Ann. (1972). The remaining \$906,885.69 appears to be an unallowable loan to the district from the Sixteenth Section Principal Trust Fund under Section 29-3-113, Miss. Code Ann. (1972).

The use of a portion of the cash obtained from the Sixteenth Section Principal Trust Funds to pay for operating expenses of the district instead of the purpose stated in the board resolution resulted in noncompliance with Section 29-3-113, Miss. Code Ann. (1972).

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2005

Recommendation

The district should comply with Section 29-3-113, Miss. Code Ann. (1972), and repay the Sixteenth Section Principal Trust Fund for the unallowable portion of the loan. Controls should be implemented to insure that monies received from the Sixteenth Section Principal Trust Fund be used only for allowable expenditures.

05-03. Finding

Sixteenth section lands are not ordinary public lands. Sixteenth section lands are those lands set aside in trust at statehood to generate revenue for Mississippi's public schools. They are trust land, and legal principles regarding the management of trust apply. Law imposes on those responsible for the management of trusts, the highest standards of care and attention. They are administered by local school boards, with lease and interest revenue going directly to the school district.

Further, Section 29-3-113, Miss. Code Ann. (1972) states, "...The board of education of any school district in any county that has an aggregate amount of assets in its principal fund in excess of Five Million Dollars (\$5,000,000), may deduct an amount not to exceed Five Hundred Thousand Dollars (\$500,000) for the purpose of covering the cost of asbestos removal from school district buildings."

The school board authorized a one time transfer of Five Hundred Thousand Dollars (\$500,000) to the District Maintenance Fund for the purpose of asbestos removal. When supporting documentation was requested for the transfer of monies for asbestos removal, management could not provide documentation that asbestos removal had taken place.

The use of cash obtained from the Sixteenth Section Principal Trust Fund to pay for operating expenses of the district instead of the purpose stated in the board resolution resulted in noncompliance with Section 29-3-113, Miss. Code Ann. (1972).

The transfer of nonexpendable Sixteenth Section Principal Trust Fund monies permanently reduced the corpus of the trust which effected the amount of interest generated for current and future years.

Recommendation

The district should comply with Section 29-3-113, Miss. Code Ann. (1972). The unallowable transfer of \$500,000 should be repaid to the Sixteenth Section Principal Trust Fund. Controls should be implemented to insure that monies received from the Sixteenth Section Principal Trust Fund are used only for allowable expenditures.

05-04. Finding

Management is responsible for properly recording transactions to permit the preparation of the financial statements in accordance with generally accepted accounting principles.

The district did not maintain detailed subsidiary ledgers for investments. Reconciliations were not performed to reconcile the monthly investment statements to the detailed general ledger by district personnel.

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2005

On June 30, 2005, a check in the amount of \$700,000 was issued to a banking institution, however, this check did not clear the bank account until August 22, 2005. The check was written for the purchase of investments by the Sixteenth Section Principal Trust Fund. The financial statements failed to properly reflect this transaction.

Internal controls appear to be inadequate over the handling of transactions of this nature and the proper reconciling of outstanding checks. When management prepared the financial statements, an adjustment was made reducing both fund balance and investments, thereby, eliminating \$700,000 from the district's financial statements.

This presentation resulted in a misstatement of the financial statements of the district. Auditors proposed correcting entries which were subsequently made by management. In addition, the practice of not investigating large outstanding checks monthly, nor reconciling the monthly statements of cash and investments to the general ledger by management, could result in future errors, misstatements and or misuse of funds which may not be detected in a timely manner.

Recommendation

The district should implement controls, policies, and procedures which require adequate evaluation and review of outstanding checks. Also, monthly reconciliations should be prepared of the bank statements, statements of investments and cash to the amounts reported in the general ledger.

05-05. Finding

A critical aspect of effective financial management is the maintenance of accurate accounting records following generally accepted accounting principles.

The district did not properly record the discounts provided by the Federal Communications Commission grant as administered through Universal Service Administration Company for the School and Libraries Program of the Universal Service Fund "E-Rate" revenues and related expenditures. The district did receive E-Rate revenue through discounted services. The district did not record the expenditures resulting from E-Rate discounts related to purchases or record the related discount as revenue. Therefore, the district understated both revenues and expenditures for the fiscal year ending June 30, 2005, in the amount of \$189,168. Auditors proposed correcting entries which were subsequently made by management.

Generally accepted accounting principles were not followed in recording the revenues and expenditures of the E-Rate grant.

Recommendation

When making purchases utilizing the E-Rate discount process, the district should record the entire amount of the purchase and the related discount as revenue at the time of purchase in order to accurately reflect the actual cost of the purchase and related revenue earned through the E-Rate grant.

05-06. Finding

Management is responsible for establishing a proper internal control system to insure strong financial accountability and safeguarding of assets.

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2005

During our test work regarding cash, we found that a check had been issued on June 30, 2004, that had not cleared the bank and that remained outstanding at June 30, 2005. The outstanding check was issued to NCEE "America's Choice", under a reimbursable federal grant, Improving Teacher Quality State Grants, but was never mailed. The district did not enter into the contract until July 1, 2004. The contract required a fifty percent payment due at the signing of the contract. A \$75,000 expenditure was recorded by the district in the Improving Teacher Quality Special Revenue Fund. Reimbursement from the State Department of Education grant was received. Funds were transferred to the claims payable clearing fund for payment. The check remained listed as an outstanding check for more than a year before it was discovered in the vault at the school district. If the district had released the check, the district would have overpaid the vendor on the contract in the amount of \$75,000.

Lack of internal controls regarding the purchasing and accounts payable cycles allowed the expenditure to be recorded and check to be issued in the fiscal year ending June 30, 2004, which resulted in an improper cut off of expenditures because the contract began July 1, 2004. An additional lack of controls resulted from the district not evaluating outstanding checks.

When proper controls are not in place, there is an increased risk that unauthorized or inappropriate transactions could be processed and the district would not detect this condition on a timely basis. As a result, the district could have made a payment with federal dollars for services not rendered, which is a violation of the federal award, as well as state statutes.

Recommendation

We recommend that the district implement strong internal controls regarding proper recording and cut off of expenditures. In addition, the district should not enter into contracts that require payments before services are rendered, as this is unallowable under state law and according to requirements set forth in OMB Circular A-87. Also, when the bank statements are reconciled, outstanding checks that are over 90 days old should be investigated.

05-07. Finding

Capital assets include purchases of equipment when the acquisition price meets or exceeds the established threshold of \$5,000. The capitalized fixed asset subsidiary ledger is required to represent a complete and valid listing of all capitalizable costs of assets purchased, leased, or constructed and physically on hand.

During our tests of internal controls over capital assets, we found that:

- Vocational capital assets were not recorded in the amount of \$54,701 with prior related accumulated depreciation in the amount of \$51,042 and current year depreciation of \$1,032.
- A double oven purchased on August 14, 2001, was not recorded in the capitalized fixed asset subsidiary ledger until August 15, 2004, in the amount of \$5,495. The district did not record the associated accumulated depreciation on the related fixed asset from 2001 until 2004.
- Playground equipment in the amount of \$220,000 was not recorded in the capitalized fixed asset subsidiary ledger. The equipment was placed on the fixed asset inventory as individual pieces of equipment with each being less than the \$5,000 threshold for capital expenditures.
- One of ten disposals tested was not approved by the board.

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2005

Failure to reconcile purchases of assets with additions to the fixed asset subsidiary ledger, along with a failure to reconcile disposals of fixed assets to the minutes of the school board, resulted in misstatements in the amount reported in the district's financial statements.

Therefore, the fixed asset accounting records were inaccurate and unreliable. Improper recording of capital assets also affected related depreciation under the requirements of the Governmental Accounting Standards Board Statement No. 34.

Recommendation

The district should implement procedures and internal controls with regard to the purchase, disposal, and transfer of fixed assets by reconciling them monthly to current month additions and board approved disposals of equipment.

05-08. Finding

Management is responsible for establishing a proper internal control system to insure strong financial accountability and safeguarding of assets.

During our tests of internal controls, we found that after the claims docket had been processed each month for school board approval, all purchase orders which had an accompanying invoice were deleted from the accounting encumbrance system without regard to completion of the purchase order.

Further, for invoices that referenced purchase orders that had been deleted, the purchase order number was being marked out and a new purchase order number was written on the invoice. The district then prepared a new purchase order based upon the currently presented invoice, obtained coding from the computer system by pulling up the deleted purchase order number, and wrote the new purchase order number on the invoice. Once the new purchase order was completed, the invoice was entered into the financial accounting system for payment. Additionally, the district had no safeguards concerning the total amount or even existence of outstanding purchase orders.

This material weakness is caused by the district utilizing the accounting software system inappropriately by deleting purchase orders prior to all items having been received. In order to have strong internal controls, the vendor must be notified before the purchase orders are deleted when orders are not complete.

Without proper encumbrance accounting procedures, the district significantly increased the risk that unauthorized or inappropriate transactions could be processed and the district not detect this condition in a timely manner. In addition, this procedure completely circumvented all budgetary controls, thereby, placing the district in a position of not knowing the amount of outstanding commitments authorized by the district.

Recommendation

The district should implement procedures and controls which insure the safeguarding of assets by using budgetary controls. Proper utilization of the accounting software package with regard to encumbrance accounting should enable the district to insure that each payment made has been properly authorized as to amount and existence.

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2005

05-09. Finding

A critical aspect of effective financial management is the maintenance of accurate accounting records following generally accepted accounting principles.

During our tests of expenditures, we found that the District Maintenance Fund reimbursed the activity funds for expenditures that the district should have authorized and paid from District Maintenance Funds and not activity funds per Section 37-7-301, Miss. Code Ann. (1972). The district reimbursed the student activity funds for regular operation and maintenance expenditures and federal program expenditures. When the district reimbursed an activity fund, the transaction was recorded as an expenditure in the District Maintenance Fund and recognized as revenue in the activity fund. For example, a van was purchased from the Vocational Activity Fund for the District Maintenance Fund. When the van was purchased, an expenditure was recorded in the activity fund. When the transaction was moved to the District Maintenance Fund, an expenditure was recorded and revenue recorded in the activity fund for the reimbursement.

Accounting for transactions related to internal transfers was not made in accordance with generally accepted accounting principles. These transactions resulted in the overstatement of revenues and expenditures in the financial statements of the district. Auditors proposed correcting entries which were subsequently made by management. In addition, the procedures used by the district circumvented all budgetary and purchasing controls of the district.

Recommendation

The district should follow generally accepted accounting principles and applicable state statutes in recording transactions related to activity accounts. In addition, procedures should be implemented to properly control activity fund purchases at the district level.

05-10. Finding

Management is responsible for establishing a proper internal control system to insure strong financial accountability and safeguarding of assets. Important aspects of internal control related to purchasing are to insure that the amount of the purchase order, invoice, and shipping documents are reconciled to insure the item has been received prior to payment and that the proper authorized amount is paid.

During our tests of internal controls the following was noted:

- The district did not require documentation showing receipt of goods purchased or of services performed prior to payment.
- Invoices were not required to be cancelled to avoid duplicate payment.
- Numerous invoices pre-dated purchase orders.
- Purchase orders were created when invoices were received.
- Activity funds did not use pre-numbered purchase orders.
- The district paid from statements with no detail of information documenting what the payment was for.
- In some cases, invoices were created by the district.

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2005

Lack of controls surrounding invoices is directly related to lack of controls over the purchase order system. Therefore, the district was at a high level of risk that any invoice that was submitted by a vendor would potentially be processed for payment. In addition, there were no controls in place to protect against payment for items which had not been received or payment for services which had not been rendered. Additionally, there were no controls in place to prevent the payment of a duplicate invoice.

Recommendation

The district should implement controls to effectively insure that all payments for goods and services have been received and services have been completed. In addition, the district should implement controls to insure proper reconciliations are performed between what has been invoiced, what has been received, and what has been authorized to be purchased prior to placement on the docket for school board approval. Also, district personnel should never create invoices for vendors to be paid by the district.

05-11. Finding

Management is responsible for establishing a proper internal control system to insure strong financial accountability and safeguarding of assets.

During our tests of internal controls, we noted that the same individual performed the following functions in the cash receipts/revenue and payroll cycle which indicated a lack of segregation of duties:

- Received cash;
- Coded receipts by fund and function;
- Posted receipts into the financial accounting system;
- Was responsible for the performance of reconciling the bank balances to the general ledger system; and,
- Performed all functions of payroll including setting up new employees, entering salary amounts, calculating pay, maintaining deductions, paying salary withholdings to vendors, printing checks, and distributing checks to employees.

Good internal controls require duties to be properly segregated to prevent both the initiation and authorization of an entire transaction by one individual. Failure to adequately segregate duties increases the risk that unauthorized or inappropriate transactions could be processed and not be detected in a timely manner.

Recommendation

The district should revise its systems of cash receipts/revenue and payroll functions whereby duties would be divided to the greatest possible extent. Adequate staff appear to be available to segregate these responsibilities.

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2005

05-12. Finding

Management is responsible for establishing a proper internal control system to insure strong financial accountability and safeguarding of assets. A critical aspect of financial management is the maintenance of accurate accounting records, which includes insuring all school related activities are properly recorded on the financial statements of the school district.

A liability for work performed and the related expenditure in the amount of \$296,406 in connection with an energy efficiency lease was not recorded on the district's financial statements. Through inquiry, we determined that the district had taken steps to enter into a lease agreement using the State's Master Lease Program. The district had received an invoice for the product and services performed at June 30, 2005.

Internal controls were not in place which would detect liabilities. Without proper controls being in place to account for all transactions, the district increased the risk that unrecorded liabilities could exist and not be detected in a timely manner.

At June 30, 2005, the financial statements of the district, as submitted to the auditors, did not report an expenditure and liability for work performed for the energy efficiency improvements. Auditors proposed correcting entries which were subsequently made by management.

Recommendation

Management should insure controls are in place to account for all transactions of the school district for financial reporting purposes.

05-13. Finding

The district did not properly follow the Fair Labor Standards Act issued by the United States Department of Labor concerning overtime issues for employees who worked more than 40 hours in a work week. In addition, amounts paid to each employee were not reflected in the minutes of the school board.

The district paid classified "hourly" employees a salary without regard to actual hours worked. The annual salary for the position was divided into 12 equal installments. Records of hours worked were not balanced to wages paid. Overtime was computed only for those employees who had dual job status with the district. Overtime for employees with dual jobs was calculated at the beginning of the school year by the payroll clerk before the time was worked.

Due to a lack of compliance with the Fair Labor Standards Act, payments to non-exempt personnel were processed improperly. Record keeping was inadequate or non-existent for some employees.

Payment of wages without adequate records could result in the overpayment or underpayment of employees.

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2005

Recommendation

The district should maintain accurate time records, and pay wages to non-exempt employees based on the hours actually worked. The records should reflect the hours worked on a weekly basis and be signed by the employee and supervisor at the end of the work week. The work week should be determined by the school board. Any non-exempt employee working more than 40 hours per week should be awarded overtime based upon the Fair Labor Standards Act. The school board's minutes should reflect all supplements paid to each employee to insure compliance with Section 37-7-301, Miss. Code Ann. (1972).

Reportable Conditions Not Considered to be Material Weaknesses

05-14. Finding

Management is responsible for establishing a proper internal control system to insure strong financial accountability and safeguarding of assets. A critical aspect of financial management is the maintenance of accurate accounting records, which includes insuring all school related activities are properly recorded on the financial statements of the school district.

A bank account was opened using the school district's federal tax identification number with a balance of \$2,039 and was not reported in the district's accounting records or financial statements.

Proper internal controls were not in place to detect the existence of unauthorized bank accounts.

Without proper controls being in place to account for all monetary transactions, the district increased the risk of theft and loss of cash.

Recommendation

Management should have controls in place to annually check with local banking institutions to insure that no unauthorized accounts have been opened using the district's employer identification number.

05-15. Finding

A critical aspect of effective financial management is the maintenance of accurate accounting records, which includes reconciling monthly bank statements to the general ledger. In addition, strong internal controls dictate the district prepare accurate reconciliations to insure account balances are accurate.

We noted clerical errors with regard to the bank reconciliation prepared by the business manager for the activity/club funds of Bassfield High School totaling \$1,994. A difference in the amount of \$1,866 was attributable to the fact that the outstanding checks did not agree to the amount used as outstanding on the bank reconciliation. Also, there was an unlocated difference in the amount of \$60. Further, a student club fund, "Eleventh Grade" at Bassfield High School reported a negative cash balance of \$188 at June 30, 2005. A club fund with a negative cash balance indicates that another fund must have loaned the club money. These funds were held in a pooled bank account with general activity funds.

Although these inaccuracies by themselves were not material to the financial statements, they did reveal a lack of effective internal controls with regard to the accuracy of accounting records. The district did not have the statutory authority to loan money from general activity funds to student club funds. Further, without approval of the other student clubs, the district did not have the authority to loan other clubs money.

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2005

Recommendation

The district should insure that procedures are established and followed so that bank statements are accurately reconciled to the general ledger and any differences are investigated and recorded on the general ledger to properly reflect transactions. The district should also implement procedures which would enable them to accurately and timely evaluate the balances of each club fund. In addition, it is recommended that separate physical bank accounts be maintained for general activity funds and fiduciary club funds. This procedure would insure that no money is loaned from public general activity funds to a Fiduciary Fund.

05-16. Finding

Management is responsible for establishing a proper internal control system to insure strong financial accountability and safeguarding of assets.

During our tests of performance bonds, we found that the district did not maintain adequate documentation showing to whom they owed performance bonds.

The district waited for vendors to request reimbursement of their performance bonds after work had been completed. Controls were not in place to identify from whom performance bonds had been collected and to whom they were owed.

Performance bonds at the district were mainly related to timber sales which could become material transactions in the future. In addition, if a vendor did not request the performance bond to be returned, the project may not have been completed in accordance with the contract and damages could actually be due the district.

Recommendation

The district should implement proper controls and procedures to effectively and timely identify which vendors are owed performance bonds.

05-17. Finding

Each school board is responsible for determining which employees will be entrusted with the duties of purchasing. The administration is required to follow the directives of the school board and insure proper financial accountability and reporting of activity fund expenditures.

For activity funds, purchase orders and purchase requisitions are considered to be one form. We noted 71 (totaling \$14,937) of 123 (totaling \$34,869) purchasing requisitions/orders did not contain signatures of the principals (purchasing agents). All principals at Jefferson Davis County School District are designated as purchasing agents as specified in Section 31-7-1, Miss. Code Ann. (1972), and are bonded as purchasing agents as specified in Section 37-39-21, Miss. Code Ann. (1972). Controls were not in place to prevent school secretaries from processing requisitions through the computer system without having obtained approval by the principal/purchasing agent.

The lack of the principal/purchasing agent's signatures on the purchasing documentation results in poor internal controls at the school level. In addition, budgetary controls should be in place to insure proper authorizations are followed.

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2005

Purchases made without proper signatures or approval could lead to improper or unauthorized purchases.

Recommendation

The district should implement procedures to require all purchasing documentation be completed, signed and submitted by the purchasing agent before purchases are made. Separate purchase orders and purchase requisitions should also be used in the purchasing process at the school level. Further, available computerized budgetary controls should be used.

Section 3: Federal Award Findings and Questioned Costs

05-18. Finding

Material Non-Compliance/Material Weakness

Program: Title I grants to LEA's; CFDA #84.010

Compliance requirement: Activities allowed or unallowed

Questioned costs: \$170,995

If a Local Educational Authority (LEA) consolidates administrative funds, the LEA may not use any other funds from the consolidating programs for administration. An LEA that consolidates administrative funds is not required to keep separate records of administrative costs for each individual program. Expenditures of consolidated administrative funds are allowable if they are for administrative costs that are allowable under any of the contributing programs (Sections 9201 and 9203 of ESEA [20 USC 7821 and 7823]).

The Jefferson Davis County School District's Consolidated Federal Programs Application Form as approved by the Mississippi State Department of Education, indicated the district would maintain a separate fund for the Federal Consolidated Administrative Costs using the cost pool option. This fund would have allowed for the exemption of maintaining allocated time management records, and allowed for the purchase of supplies, travel and equipment associated with the administration of these federal programs without maintaining separate records by program. The district failed to establish an administrative cost fund as stated in its approved project application. All of these expenditures were charged directly to the Title I grants to LEA's program.

The following were noted during our test of items coded to administrative costs of the Title I grants to LEA's program:

- The district paid salaries for the federal programs director, secretary, and technology personnel without regard to time record management or semiannual requirements for school-wide programs.
- The district entered into an agreement for rental of office space for \$300 per month, however, the district processed and paid invoices to the vendor for \$600 per month for the entire year.

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2005

- Payments were made in the amount of \$6,095 for interior design services which included fees for design, setup, travel and reimbursements for items such as curtains, dinnerware, kitchen utensils, and framed prints without obtaining two written quotes as required by state purchasing laws for items purchased with cost exceeding \$3,500 or without regard to whether the items and services were program related, reasonable or necessary for the performance of the Title I grants to LEA's program.
- A payment of \$2,940 was made to install a 70" electric screen along with a sound system in a meeting room within the building rented for the federal programs offices.
- Payments in the amount of \$111 were made for electrical supplies to add electrical outlets to the office building.
- Invoices were internally generated by district personnel to facilitate payments for pest control services.
- The district paid a \$2,925 installment on a \$11,700 contract from an invoice which did not contain detailed information concerning the goods or services rendered.

Failure to maintain adequate controls over allowable costs charged to federal programs could result in disallowed costs.

Recommendation

The district should implement adequate internal controls concerning purchasing and contractual agreements. Expenditures for the administration of federal programs for the district should be recorded in accordance with its Consolidated Federal Programs Administration Application as approved by the Mississippi State Department of Education.

05-19. Finding

Material Weakness

Program: Title I grants to LEA's; CFDA #84.010

Compliance requirements: Activities allowed or unallowed  
Allowable costs/cost principles

Questioned costs: \$2,042

Management is responsible for establishing internal controls to provide reasonable assurance that federal awards are expended only for allowable activities and that the costs of goods and services charged to federal awards are allowable and in accordance with the applicable cost principles.

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2005

During our tests of 34 expenditures charged to the Title I grants to LEA's program, we noted the following:

- Twelve invoices pre-dated the purchase order.
- The district paid a company owned by a district employee \$175 for lawn care, cutting tree limbs and removal of trash. The invoices for these services were internally created by district personnel.
- One expenditure was made for eight individuals to stay at a conference for four nights each. Documentation was not available to support the payment in the amount of \$636 for one of the individuals to attend the conference.
- Thirteen expenditures amounting to \$12,121 which appear to be program related and allowable contained no indication that the federal program director had approved these expenditures.
- Four expenditures were coded incorrectly.
- No supporting invoice for the expenditure of \$176 was available. Also, there was no documentation as to why the amount paid exceeded the approved purchase requisition by \$76.
- An individual was paid an hourly rate of pay through the claims payable process instead of through the payroll process.
- No documentation, other than a requisition, such as an invoice or request for travel was on file to support a \$405 payment to the Grand Casino - Bayview.
- The district reimbursed a student activity fund for hotel rooms in the amount of \$650. The district was unable to provide documentation of approval for this expenditure by the program director.

Lack of adequate internal controls surrounding the approval and expenditure of federal funds resulted in expenditures being made that were not supported by adequate documentation. Without adequate controls, unauthorized or unallowable expenditures could be made from federal funds and not be detected by district personnel in a timely manner.

Recommendation

The district should implement internal controls to insure compliance with OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*. Controls should be in place to insure that all expenditures are:

- Reasonable and necessary for proper and efficient performance and administration of federal awards;
- Authorized or not prohibited under state or local laws or regulations;
- Consistent with policies, regulations, and procedures that apply uniformly to both federal awards and other activities of the governmental unit;

JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2005

- Determined in accordance with generally accepted accounting principles;
- Net of all applicable credits; and,
- Adequately supported with documentation maintained on file.

05-20. Finding

Material Non-Compliance/Material Weakness

Programs: Title I grants to LEA's; CFDA #84.010  
Drug-free; CFDA #84.184  
Improving teacher quality; CFDA #84.367  
IDEA Part B 94-142 special education; CFDA #84.027  
IDEA 94-457 preschool; CFDA #84.173  
Title VI rural and low income; CFDA #84.358  
Title V innovative programs; CFDA #84.298

Compliance requirement: Cash management

The district is responsible for establishing internal controls to provide reasonable assurance that the draw down of federal cash is only for immediate cash needs.

Adequate controls were not in place to insure that funds drawn down from federal programs were for the district's immediate cash needs. As a result, in the district requested federal funds in excess of its immediate needs from the Mississippi State Department of Education. Interest earned on those funds was not properly reported and remitted to the state agency. This situation represents a weakness over the controls surrounding the cash management requirement for these federal programs.

Recommendation

The district should implement policies and procedures to insure compliance with the cash management requirement for federal program funds, which requires the district to request funds in a manner that will allow for the disbursement of those funds in a timely manner. We also recommend any interest earned on the draw down of excess federal program funds be properly reported and remitted to the Mississippi State Department of Education.

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JEFFERSON DAVIS COUNTY SCHOOL DISTRICT

AUDITEE'S CORRECTIVE ACTION PLAN

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**Jefferson Davis County School District**

P.O. Box 1197 - 909 Leo Street  
Prentiss, Mississippi 39474-1197  
PHONE (601) 792-4267 FAX (601) 792-2251

Wayne Fortenberry, Superintendent

April 27, 2007

**Financial & Compliance Audit Division**

As required by Section .315© of OMB Circular A-133, the Jefferson Davis County School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2005:

<u>Finding</u>	<u>Corrective Action Plan Details</u>
05-01	<p>a. Name of Contact Person Responsible for Corrective Action:</p> <p>Dennis Wayne Fortenberry Superintendent (601) 792-5449</p> <p>b. Corrective Action Planned:</p> <p>The District is implementing a recovery plan to reduce expenditures significantly over the next three years, starting with the fiscal year ending June 30, 2007, such that the current year revenues will exceed the current year expenditures, thereby allowing each year's excess revenue to reduce any prior year deficit and proceed to build up a fund balance surplus. A reduction in force plan is currently being implemented for the 2007-2008 fiscal year.</p> <p>c. Anticipated Completion Date:</p> <p>June 30, 2012</p>

Finding  
05-02

Corrective Action Plan Details

a. Name of Contact Person Responsible for Corrective Action:

Dennis Wayne Fortenberry  
Superintendent  
(601) 792-5449

b. Corrective Action Planned:

The District will comply with Section 29-3-113, Miss. Code Ann. (1972), and insure that repayment is made to the Sixteenth Section Principal Trust Fund. The District will monitor and review the Sixteenth Section Principal Trust Fund each year to insure that all monies received by the District that are required to be deposited into the Sixteenth Section Principal Trust Fund are deposited in such fund and that no payments are made from the Sixteenth Section Principal Trust Fund, except those that are specifically allowed by law.

c. Anticipated Completion Date:

June 30, 2010

05-03

a. Name of Contact Person Responsible for Corrective Action:

Dennis Wayne Fortenberry  
Superintendent  
(601) 792-5449

b. Corrective Action Planned:

The District will comply with Section 29-3-113, Miss. Code Ann. (1972), and insure that repayment is made to the Sixteenth Section Principal Trust Fund. The District will monitor and review the Sixteenth Section Principal Trust Fund each year to insure that all monies received by the District that are required to be deposited into the Sixteenth Section Principal Trust Fund are deposited in such fund and that no payments are made from the Sixteenth Section Principal Trust Fund, except those that are specifically allowed by law.

c. Anticipated Completion Date:

June 30, 2012

- 05-04
- a. **Name of Contact Person Responsible for Corrective Action:**  
  
Dennis Wayne Fortenberry  
Superintendent  
(601) 792-5449
  - b. **Corrective Action Planned:**  
  
The District will implement a procedure that will require the monthly reconciliation of each investment account statement balance to the general ledger investment account balance.
  - c. **Anticipated Completion Date:**  
  
June 30, 2008
- 05-05
- a. **Name of Contact Person Responsible for Corrective Action:**  
  
Dennis Wayne Fortenberry  
Superintendent  
(601) 792-5449
  - b. **Corrective Action Planned:**  
  
The District will implement a procedure that will require all E-Rate discounted expenditures to be recorded at the entire amount (100%) of the purchase and the related discount amount will be balanced by the recording of federal E-rate revenue. This procedure will be implemented as a requirement for the proper coding of the requisition and subsequent claim for payment.
  - c. **Anticipated Completion Date:**  
  
June 30, 2008

05-06

a. Name of Contact Person Responsible for Corrective Action:

Dennis Wayne Fortenberry  
Superintendent  
(601) 792-5449

b. Corrective Action Planned:

The District has implemented procedures to insure that services or products are received prior to payment of an invoice and that payments are not made without a proper invoice. In addition, a procedure will be implemented to require a monthly review of all checks that remain outstanding in excess of 90 days to determine the need for the appropriate voiding of the check and any other actions that may be required to clear the stale outstanding check.

c. Anticipated Completion Date:

June 30, 2008

05-07

a. Name of Contact Person Responsible for Corrective Action:

Dennis Wayne Fortenberry  
Superintendent  
(601) 792-5449

b. Corrective Action Planned:

The District will first designate and assign an individual to the task of tracking and maintaining fixed assets. A step by step process and procedures guide will be developed to be used as a daily reference guide. The assigned individual will then be provided sufficient training on prescribed guidelines for the proper acquisition, maintenance and disposal of fixed asset. This process will be monitored periodically during the fiscal year.

c. Anticipated Completion Date:

June 30, 2008

05-08

a. Name of Contact Person Responsible for Corrective Action:

Dennis Wayne Fortenberry  
Superintendent  
(601) 792-5449

b. Corrective Action Planned:

The District has implemented a procedure that requires all purchase orders to be supported by a properly authorized purchase requisition. If an invoice is received by the District for payment and there is no properly approved open purchase order, the invoice can not be processed for payment without a properly authorized purchase requisition. A properly authorized purchase requisition requires the signature of approval of the district employee initiating the purchase, the principal of the school of the employee initiating the purchase or the director of the department of the employee initiating the purchase, the federal program director, if applicable, the purchasing clerk and the business manager. The district superintendent is then required to sign the purchase order as purchasing agent.

c. Anticipated Completion Date:

June 30, 2007

05-09

a. Name of Contact Person Responsible for Corrective Action:

Dennis Wayne Fortenberry  
Superintendent  
(601) 792-5449

b. Corrective Action Planned:

The District has implemented procedures which require that all activity funds requisitions for expenditures be approved by the principal or director of the school/center of the employee initiating the purchase, the purchasing clerk and the business manager. The district superintendent is then required to sign the purchase order as purchasing agent. In addition, the coding of the expenditures is reviewed and approved by the purchasing clerk and the business manager. The business office employees have all been provided instructions of the recording of inter-fund transfers,

however training is continuously on-going. The business manager will be charged with the responsibility of insuring that expenditures are not recorded twice in the governmental funds for a single transaction.

c. **Anticipated Completion Date:**

June 30, 2008

05-10

a. **Name of Contact Person Responsible for Corrective Action:**

Dennis Wayne Fortenberry  
Superintendent  
(601) 792-5449

b. **Corrective Action Planned:**

The District has implemented a procedure that requires the Accounts Payable Clerk to document verification by way of a checklist that the following procedures have been properly performed prior to presenting the claim to the school board for approval and/or payment of claim:

1. The requisition has been properly authorized prior to the preparation and approval of the purchase order
2. The purchase order has been properly approved and signed prior to purchase being made or service being rendered
3. There is appropriate documentation of receipt of item
4. The original invoice received from the vendor has been properly cancelled
5. All purchase orders are prepared by the business office staff through the computer system which automatically assigns a computer generated purchase order number to each purchase order.

c. **Anticipated Completion Date:**

June 30, 2007

- 05-11
- a. **Name of Contact Person Responsible for Corrective Action:**  
  
Dennis Wayne Fortenberry  
Superintendent  
(601) 792-5449
  - b. **Corrective Action Planned:**  
  
As funds become available the District will employ and assign the cash receipting, bank reconciliation and payroll processing function each to a different individual within the business office.
  - c. **Anticipated Completion Date:**  
  
June 30, 2009
- 05-12
- a. **Name of Contact Person Responsible for Corrective Action:**  
  
Dennis Wayne Fortenberry  
Superintendent  
(601) 792-5449
  - b. **Corrective Action Planned:**  
  
The district has implemented procedures to insure that expenditures are budgeted and/or encumbered prior to services being rendered or products being purchased. All invoices received, but not paid as of year-end, for services rendered or goods received as of year-end will be properly accrued as an expenditures at year-end. In addition, the district will review invoices received and/or paid after year-end to insure that the expenditure is recorded in the year in which the expenditure was incurred.
  - c. **Anticipated Completion Date:**  
  
June 30, 2007

- 05-13
- a. **Name of Contact Person Responsible for Corrective Action:**
- Dennis Wayne Fortenberry  
Superintendent  
(601) 792-5449
- b. **Corrective Action Planned:**
- The district will insure the maintenance of accurate time records, and pay wages to non-exempt employees based on the hours actually worked. Records to support the hours worked will be properly maintained. Non-exempt employees working more than 40 hours per week will be awarded overtime based upon the Fair Labor Standards Act.
- c. **Anticipated Completion Date:**
- June 30, 2008

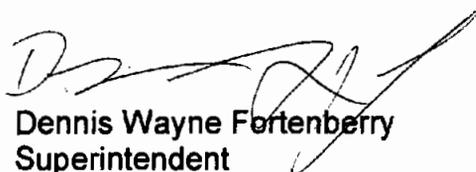
- 05-14
- a. **Name of Contact Person Responsible for Corrective Action:**
- Dennis Wayne Fortenberry  
Superintendent  
(601) 792-5449
- b. **Corrective Action Planned:**
- The district will check annually with local banking institutions to insure that there are no unauthorized bank accounts opened using the district's employer identification number.
- c. **Anticipated Completion Date:**
- June 30, 2008

- 05-15
- a. **Name of Contact Person Responsible for Corrective Action:**
- Dennis Wayne Fortenberry  
Superintendent  
(601) 792-5449
- b. **Corrective Action Planned:**
- The district will implement review procedures to insure that all bank accounts are properly reconciled in a timely manner. The district will also implement review and approval controls to insure that the disbursements from each student club fund do not exceed the cash balance of each student club fund.
- c. **Anticipated Completion Date:**
- June 30, 2008
- 05-16
- a. **Name of Contact Person Responsible for Corrective Action:**
- Dennis Wayne Fortenberry  
Superintendent  
(601) 792-5449
- b. **Corrective Action Planned:**
- The district will implement procedures which will require that a detail schedule of performance bonds will be maintained, monitored and updated to insure that performance bonds are properly maintained and/or returned to vendor in accordance with prescribed guidelines.
- c. **Anticipated Completion Date:**
- June 30, 2008

- 05-17
- a. **Name of Contact Person Responsible for Corrective Action:**
- Dennis Wayne Fortenberry  
Superintendent  
(601) 792-5449
- b. **Corrective Action Planned:**
- The district has implemented procedures to insure that all purchase requisitions are properly approved by the principals and business manager prior to the preparation of a purchase order and prior to incurring any expenditure on behalf of the district.
- c. **Anticipated Completion Date:**
- June 30, 2008
- 05-18
- a. **Name of Contact Person Responsible for Corrective Action:**
- Dr. Oneida Sibley  
Director of Federal Programs  
(601) 792-2702
- b. **Corrective Action Planned:**
- The district will implement adequate internal controls concerning purchasing and contractual agreements. The federal program director's approval and guidance will be acquired for all federal program expenditures insuring accuracy in accordance with the Consolidated Federal Programs Administration Application as approved by the Mississippi State Department of Education.
- c. **Anticipated Completion Date:**
- June 30, 2008

- 05-19      a.      **Name of Contact Person Responsible for Corrective Action:**
- Dr. Oneida Sibley  
   Director of Federal Programs  
   (601) 792-2702
- b.      **Corrective Action Planned:**
- The district will implement internal controls to insure that all federal award expenditures are in compliance with regulations of federal, state and local guidelines or laws. Controls will be implemented to insure that all expenditures are reasonable, necessary and net of applicable credits with adequate supporting documentation on file.
- c.      **Anticipated Completion Date:**
- June 30, 2008
- 05-20      a.      **Name of Contact Person Responsible for Corrective Action:**
- Dennis Wayne Fortenberry  
   Superintendent  
   (601) 792-5449
- b.      **Corrective Action Planned:**
- The district will implement procedures to insure compliance with the cash management requirements for federal program funds. The district will only draw down funds for each federal program sufficient to cover the expenditures of such programs.
- c.      **Anticipated Completion Date:**
- June 30, 2008

Sincerely yours,

  
Dennis Wayne Fortenberry  
Superintendent