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**Brookhaven School District  
Financial Statements  
For the Year Ended  
June 30, 2006**

Brookhaven School District  
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Brookhaven School District

FINANCIAL AUDIT REPORT

# **PATRICK E. LOWERY AND ASSOCIATES**

**CERTIFIED PUBLIC ACCOUNTANTS**

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## **INDEPENDENT AUDITOR'S REPORT**

**ON**

### **THE BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION**

Superintendent and School Board  
Brookhaven School District

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Brookhaven School District as of and for the year ended June 30, 2006, which collectively comprise the Brookhaven School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Brookhaven School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Brookhaven School District, as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2007, on our consideration of the Brookhaven 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 4 through 13 and the Budgetary Comparison Schedule and corresponding notes on pages 36 through 39 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

*Patrick E. Lowery and Associates*

Patrick E. Lowery & Associates  
Certified Public Accountants  
September 17, 2007

Brookhaven School District

MANAGEMENT'S DISCUSSION AND ANALYSIS

# Brookhaven School District

P.O. Box 540  
Brookhaven, Mississippi 39602-0540



Lea Barrett  
Superintendent

**Deputy Superintendent**

James V. Tillman, Ed.S.

**Director of Instructional Programs**

**Federal Programs Coordinator**

Marsha F. Bond

**Finance Director**

Susan Quin, CPA

The discussion and analysis of the Brookhaven School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2006. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the District's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

## FINANCIAL HIGHLIGHTS

- Total net assets, including the effect of prior period adjustments, increased \$1,854,140, which represents a 14% increase from fiscal year 2005. This increase is due primarily to 1) the entitlement of approximately \$850,000 in federal funds under the Displaced Student Grants, Restart School Grant and the FEMA/MEMA Disaster Relief Grant which resulted from Hurricane Katrina, 2) capital outlays during the fiscal year were not reported as expenses in the Statement of Activities but were capitalized on the Statement of Net Assets, and 3) repayment of debt principal was not reported as an expense in the Statement of Activities but as a reduction of long-term liabilities on the Statement of Net Assets.
- General revenues accounted for \$19,433,416 in revenue, or 78% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$5,623,406, or 22% of total revenues.
- The District had \$23,174,138 in expenses; only \$5,623,406 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$19,433,416 were adequate to provide for these programs.
- Among major funds, the General Fund had \$18,474,511 in revenues and \$16,993,220 in expenditures. After net other financing uses of \$306,719, the net change in fund balance for the General Fund was an increase of \$1,174,572 from the previous fiscal year. This increase is due primarily to the entitlement of approximately \$850,000 in federal funds under the Displaced Student Grants and Restart School Grant which resulted from Hurricane Katrina. Salary related expenditures normally incurred in the General Fund were reported in the Displaced Student Grant Funds and the Restart School Grant Fund and federal sources were recognized to cover those expenditures.

BROOKHAVEN SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2006

- Capital assets, net of accumulated depreciation, decreased by \$300,286.
- Long-term debt decreased by \$564,780.

## 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.

**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

BROOKHAVEN SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2006

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 have 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 and each additional major special revenue fund.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and a schedule of instructional, administrative and other expenditures for governmental funds is included in this report.

BROOKHAVEN SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2006

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net assets.** Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$15,547,018 as of June 30, 2006.

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. \$10,347,895 of the District's net assets (67%) 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. \$2,052,734 of the District's net assets (13%) reflects its restricted net assets. A portion of the restricted net assets is expendable for school based activities, debt service, forestry improvements and unemployment benefits. The remaining portion of the restricted net assets is nonexpendable for 16<sup>th</sup> section investment purposes. \$3,146,389 of the District's net assets (20%) reflects its unrestricted net assets.

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

The following table presents a summary of the District's net assets for the fiscal year ended June 30, 2006 and comparative data for the fiscal year ended June 30, 2005.

|  | Net Assets           |                      | Percentage<br>Change |
|--|----------------------|----------------------|----------------------|
|  | <u>June 30, 2006</u> | <u>June 30, 2005</u> |                      |
| Current assets                                     | \$ 6,409,910         | \$ 5,240,324         | 22.3 %               |
| Other assets                                       | 687,698              | 439,825              | 56.4 %               |
| Capital assets, net                                | <u>17,943,895</u>    | <u>18,244,181</u>    | (1.6) %              |
| <b>Total assets</b>                                | <u>25,041,503</u>    | <u>23,924,330</u>    | 4.7 %                |
| <br>   |                      |                      |                      |
| Current liabilities                                | 1,688,747            | 1,860,934            | (9.3) %              |
| Long-term debt outstanding                         | <u>7,805,738</u>     | <u>8,370,518</u>     | (6.7) %              |
| <b>Total liabilities</b>                           | <u>9,494,485</u>     | <u>10,231,452</u>    | (7.2) %              |
| <br>   |                      |                      |                      |
| <b>Net assets:</b>                                 |                      |                      |                      |
| Invested in capital assets,<br>net of related debt | 10,347,895           | 10,074,181           | 2.7 %                |
| Restricted   | 2,052,734            | 1,564,079            | 31.2 %               |
| Unrestricted                                       | <u>3,146,389</u>     | <u>2,054,618</u>     | 53.0 %               |
| <b>Total net assets</b>                            | <u>\$ 15,547,018</u> | <u>13,692,878</u>    | 13.5 %               |

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

BROOKHAVEN SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2006

- Current assets increased from the previous fiscal year due primarily to an increase in cash and cash equivalents.
- Other assets increased from the previous fiscal year due to the increase in cash and cash equivalents in the Sixteenth Section Principal Fund.
- Current liabilities decreased from the previous fiscal year due primarily to a decrease in accounts payable and accrued liabilities.
- Long-term debt outstanding decreased from the previous fiscal year due to principal payments made during the fiscal year.
- Restricted net assets increased from the previous fiscal year due primarily to an increase in amounts restricted for school based activities and sixteenth section purposes.
- Unrestricted net assets increased from the previous fiscal year due primarily to the increase in fund balance of the General Fund.

**Changes in net assets.** The District's total revenues for the fiscal year ended June 30, 2006 were \$25,056,822. The total cost of all programs and services was \$23,174,138. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2006 and comparative data for the fiscal year ended June 30, 2005.

|   | <u>Change in Net Assets</u> |                      | <u>Percentage<br/>Change</u> |
|---|-----------------------------|----------------------|------------------------------|
|   | <u>June 30, 2006</u>        | <u>June 30, 2005</u> |                              |
| <b>Revenues:</b>  |                             |                      |                              |
| Program revenues:                                       |                             |                      |                              |
| Charges for services                                    | \$ 980,567                  | \$ 1,246,487         | (21.3) %                     |
| Operating grants and contributions                      | 4,642,839                   | 3,948,027            | 17.6 %                       |
| General revenues:                                       |                             |                      |                              |
| Property taxes  | 7,125,280                   | 7,004,921            | 1.7 %                        |
| Grants and contributions not restricted                 | 11,636,216                  | 11,064,369           | 5.2 %                        |
| Other   | 671,920                     | 654,149              | 2.7 %                        |
| <b>Total revenues</b>                                   | <u>25,056,822</u>           | <u>23,917,953</u>    | 4.8 %                        |
| <b>Expenses:</b>  |                             |                      |                              |
| Instruction   | 13,169,876                  | 13,087,541           | 0.6 %                        |
| Support services  | 7,933,286                   | 7,154,506            | 10.9 %                       |
| Non-instructional                                       | 1,602,905                   | 1,596,381            | 0.4 %                        |
| Sixteenth section                                       | 45,351                      | 48,755               | (7.0) %                      |
| Interest and other expenses<br>on long-term liabilities | 422,720                     | 462,444              | (8.6) %                      |
| <b>Total expenses</b>                                   | <u>23,174,138</u>           | <u>22,349,627</u>    | 3.7 %                        |
| <br><b>Increase (Decrease) in net assets</b>            | <br>1,882,684               | <br>1,568,326        | <br>20.0 %                   |

BROOKHAVEN SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2006

|                              |                         |                          |            |
|------------------------------|-------------------------|--------------------------|------------|
| Net Assets, July 1           | 13,692,878              | 12,127,551               | 12.9 %     |
| Prior Period Adjustments     | <u>(28,544)</u>         | <u>(2,999)</u>           |            |
| Net Assets, Restated, July 1 | <u>13,664,334</u>       | <u>12,124,552</u>        | 12.7 %     |
| <br>Net Assets, June 30      | <br><u>\$15,547,018</u> | <br><u>\$ 13,692,878</u> | <br>13.5 % |

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

- Program revenues increased in total from the previous fiscal year due primarily to an increase in operating grants and contributions. As a result of Hurricane Katrina, the District was entitled to approximately \$580,000 in Displaced Student Grant funds and approximately \$230,000 in Restart School Grant funds. The District was also entitled to approximately \$40,000 in FEMA/MEMA Disaster Relief funds.
- General revenues increased from the previous fiscal year due primarily to an increase in unrestricted state grants and contributions.
- Support services expenses increased from the previous fiscal year due primarily to expenses incurred for minor repairs to school facilities resulting from damages caused by Hurricane Katrina.

**Governmental activities.** The following table presents, for the fiscal year ended June 30, 2006 and comparative data for the fiscal year ended June 30, 2005, 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.

|  | <u>2006</u>                 |                               | <u>2005</u>                 |                               |
|--|-----------------------------|-------------------------------|-----------------------------|-------------------------------|
|  | <u>Total Expenses</u>       | <u>Net (Expense) Revenue</u>  | <u>Total Expenses</u>       | <u>Net (Expense) Revenue</u>  |
| Instruction  | \$ 13,169,876               | \$ (9,916,434)                | \$ 13,087,541               | \$ (10,190,529)               |
| Support services                                     | 7,933,286                   | (6,881,612)                   | 7,154,506                   | (6,234,968)                   |
| Non-instructional                                    | 1,602,905                   | (287,632)                     | 1,596,381                   | (268,360)                     |
| Sixteenth section                                    | 45,351                      | (42,334)                      | 48,755                      | 1,188                         |
| Interest and other expenses on long-term liabilities | <u>422,720</u>              | <u>(422,720)</u>              | <u>462,444</u>              | <u>(462,444)</u>              |
| <b>Total expenses</b>                                | <b><u>\$ 23,174,138</u></b> | <b><u>\$ (17,550,732)</u></b> | <b><u>\$ 22,349,627</u></b> | <b><u>\$ (17,155,113)</u></b> |

- The net cost of governmental activities for fiscal year 2006 in the amount of \$17,550,732 was financed by general revenue, which is made up of primarily property taxes of \$7,125,280 and state revenue of \$11,537,068.

BROOKHAVEN SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2006

- Investment earnings accounted for \$114,614 of funding.

### 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, 2006, its governmental funds reported a combined fund balance of \$5,513,126. The net change in fund balance for the fiscal year was an increase of \$1,610,911 due primarily to the entitlement of federal funds under the Displaced Student Grants, Restart School Grant and FEMA/MEMA Disaster Relief Grant which resulted from Hurricane Katrina and conservative budgeting during the fiscal year. \$4,311,205, or 78%, of the fund balance is reported by fund type in the unreserved, undesignated section of the Governmental Funds Balance Sheet. The portion of the fund balance reported in the General Fund is available for spending at the District's discretion. The portion of the fund balance reported in the Special Revenue Funds will be used for school based activities. The remaining fund balance of \$1,201,921, or 22%, 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 inventory, prepaid items, 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 net change in fund balance for the General Fund for the fiscal year was an increase of \$1,174,572 due primarily to the entitlement of approximately \$850,000 in federal funds under the Displaced Student Grants and Restart School Grant which resulted from Hurricane Katrina. Salary related expenditures normally incurred in the General Fund were reported in the Displaced Student Grant Funds and the Restart School Grant Fund and federal sources were recognized to cover those expenditures. The net change in fund balance for the Other Governmental Funds for the fiscal year was an increase of \$436,339 due primarily to the excess of revenues over expenditures in various 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 local sources in the General Fund were decreased during the fiscal year to more accurately reflect local revenue received. The amounts originally budgeted were overstated.

BROOKHAVEN SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2006

- Budgeted amounts for instruction expenditures in the General Fund were increased during the fiscal year. However, due to the reclassification of a portion of instructional expenditures normally incurred in the General Fund to the Displaced Student Grant Funds and Restart School Grant Fund, actual instructional expenditures incurred in the General Fund during the fiscal year were less than amounts originally budgeted.
- Budgeted amounts for transfers in and transfers out of the General Fund were decreased to more accurately reflect actual transfers made during the fiscal year.
- The budget was amended during the fiscal year to reflect revenue from federal sources and instruction expenditures in the Displaced Student Grant Funds and Restart School Grant Fund. Revenue and expenditures related to these grants were a result of Hurricane Katrina and were not included in the original budget.

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

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of June 30, 2006, the District's total capital assets, before depreciation, were \$23,707,648, including land, buildings, building improvements, improvements other than buildings, mobile equipment and furniture and equipment. This amount represents a gross increase of \$321,286 from the previous year. During the fiscal year, the District completed the construction of a track and a softball complex and purchased several items of mobile equipment and furniture and equipment. Total depreciation expense for the year was \$628,251. Total accumulated depreciation as of June 30, 2006 was \$5,763,753, resulting in total net capital assets of \$17,943,895.

|                                   | <u>Capital Assets, Net of Depreciation</u> |                             | Percentage<br><u>Change</u> |
|-----------------------------------|--|-----------------------------|-----------------------------|
|                                   | <u>2006</u>                                | <u>2005</u>                 |                             |
| Land                              | \$ 167,049                                 | \$ 167,049                  | 0.0 %                       |
| Construction in progress          | 0  | 193,132                     | (100.0) %                   |
| Buildings                         | 16,234,126                                 | 16,601,345                  | (2.2) %                     |
| Building improvements             | 197,693                                    | 210,290                     | (6.0) %                     |
| Improvements other than buildings | 356,063                                    | 0                           |                             |
| Mobile equipment                  | 613,786                                    | 633,494                     | (3.1) %                     |
| Furniture and equipment           | <u>375,178</u>                             | <u>438,871</u>              | (14.5) %                    |
| <b>Total</b>                      | <b><u>\$ 17,943,895</u></b>                | <b><u>\$ 18,244,181</u></b> | <b>(1.6) %</b>              |

**Debt Administration.** At June 30, 2006, the District had \$7,805,738 in general obligation bonds and other long-term debt outstanding, of which \$586,487 is due within one year. During the fiscal year, the District issued general obligation refunding bonds in the amount of \$1,116,000.

**BROOKHAVEN SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2006**

|                                       | <u>Outstanding Debt</u>    |                            | <u>Percentage<br/>Change</u> |
|---------------------------------------|----------------------------|----------------------------|------------------------------|
|                                       | <u>2006</u>                | <u>2005</u>                |                              |
| General obligation bonds payable      | \$ 7,226,000               | \$ 6,410,000               | 12.7 %                       |
| Certificates of participation payable | 0                          | 1,220,000                  | (100.0) %                    |
| Three mill notes payable              | 370,000                    | 540,000                    | (31.5) %                     |
| Compensated absences payable          | <u>209,738</u>             | <u>200,518</u>             | 4.6 %                        |
| <b>Total</b>                          | <b><u>\$ 7,805,738</u></b> | <b><u>\$ 8,370,518</u></b> | <b>(6.7) %</b>               |

**CURRENT ISSUES**

The Brookhaven School District is financially stable. The District is proud of its community support of the public schools. The District has committed itself to financial excellence for many years. In addition, the District's system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

If you have questions about this report, contact the Superintendent's Office of the Brookhaven School District, P. O. Box 540, Brookhaven, MS 39602.

Brookhaven School District

FINANCIAL STATEMENTS

Brookhaven School District  
Statement of Net Assets  
June 30, 2006

Exhibit A

|   | <u>Primary Government</u> |
|---|---------------------------|
|   | <u>Governmental</u>       |
|   | <u>Activities</u>         |
| <b>Assets</b>                                       |                           |
| Cash and cash equivalents (Note 3)                  | \$ 4,791,760              |
| Due from other governments                          | 1,556,049                 |
| Other Receivables                                   | 7,954                     |
| Inventories and prepaid items                       | 54,147                    |
| Restricted assets                                   | 687,698                   |
| Capital assets, not being depreciated:              |                           |
| Land  | 167,049                   |
| Capital assets, net of accumulated depreciation     |                           |
| Buildings   | 16,234,126                |
| Building Improvements                               | 197,693                   |
| Improvements other than buildings                   | 356,063                   |
| Mobile equipment                                    | 613,786                   |
| Furniture and equipment                             | 375,178                   |
|   | <hr/>                     |
| Total Assets  | \$ <u>25,041,503</u>      |
| <b>Liabilities</b>                                  |                           |
| Accounts payable and accrued liabilities            | \$ 388,858                |
| Due to other governments                            | 1,163,935                 |
| Deferred revenue                                    | 31,689                    |
| Interest payable on long-term liabilities           | 104,265                   |
| Long-term liabilities, due within one year (Note 6) |                           |
| Capital related liabilities                         | 576,000                   |
| Non-capital related liabilities                     | 10,487                    |
| Long-term liabilities, due beyond one year (Note 6) |                           |
| Capital related liabilities                         | 7,020,000                 |
| Non-capital related liabilities                     | 199,251                   |
|   | <hr/>                     |
| Total Liabilities                                   | \$ <u>9,494,485</u>       |
| <b>Net Assets</b>                                   |                           |
| Investment in capital assets, net of related debt   | \$ 10,347,895             |
| Restricted net assets:                              |                           |
| Expendable:   |                           |
| School - based activities                           | 1,011,104                 |
| Debt service  | 210,035                   |
| Forestry improvements                               | 89,145                    |
| Unemployment benefits                               | 54,752                    |
| Non-expendable:                                     |                           |
| Sixteenth section                                   | 687,698                   |
| Unrestricted  | 3,146,389                 |
|   | <hr/>                     |
| Total Net Assets                                    | \$ <u>15,547,018</u>      |

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

Brookhaven School District  
Statement of Activities  
For the Year Ended June 30, 2006

Exhibit B

| Functions/Programs                   | Expenses             | Program Revenues     |                                    |                                  | Net (Expense)                     |
|--------------------------------------|----------------------|----------------------|------------------------------------|----------------------------------|-----------------------------------|
|                                      |                      | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Revenue and Changes in Net Assets |
|                                      |                      |                      |                                    |                                  | Primary Government                |
|                                      |                      |                      |                                    |                                  | Governmental Activities           |
| Primary Government:                  |                      |                      |                                    |                                  |                                   |
| Governmental Activities:             |                      |                      |                                    |                                  |                                   |
| Instruction                          | \$ 13,169,876        | 495,036              | 2,758,406                          | -                                | (9,916,434)                       |
| Support services                     | 7,933,286            | 164,093              | 887,581                            | -                                | (6,881,612)                       |
| Non-instructional                    | 1,602,905            | 318,421              | 996,852                            | -                                | (287,632)                         |
| Sixteenth section                    | 45,351               | 3,017                | -                                  | -                                | (42,334)                          |
| Interest on long-term liabilities    | 422,720              | -                    | -                                  | -                                | (422,720)                         |
| <b>Total governmental activities</b> | <b>\$ 23,174,138</b> | <b>980,567</b>       | <b>4,642,839</b>                   | <b>-</b>                         | <b>(17,550,732)</b>               |

General Revenues:

Taxes:

|                        |           |
|------------------------|-----------|
| General purpose levies | 6,285,528 |
| Debt purpose levies    | 839,752   |

Unrestricted grants and contributions:

|                                  |                   |
|----------------------------------|-------------------|
| State                            | 11,537,068        |
| Federal                          | 99,148            |
| Unrestricted investment earnings | 114,614           |
| Sixteenth section sources        | 474,092           |
| Other                            | 83,214            |
| <b>Total General Revenues</b>    | <b>19,433,416</b> |

Change in Net Assets 1,882,684

Net Assets - Beginning 13,692,878

Prior Period Adjustments (28,544)

Net Assets - Restated 13,664,334

Net Assets - Ending \$ 15,547,018

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

Brookhaven School District  
 Balance Sheet - Governmental Funds  
 June 30, 2006

Exhibit C

|  | Major Funds         |                       |                       |                       |
|--|---------------------|-----------------------|-----------------------|-----------------------|
|  | General             | Restart               | Other                 | Total                 |
|  | Fund                | Katrina<br>Grant Fund | Governmental<br>Funds | Governmental<br>Funds |
| <b>ASSETS</b>                              |                     |                       |                       |                       |
| Cash and cash equivalents (Note 3)         | \$ 3,249,956        | -                     | 2,229,502             | 5,479,458             |
| Due from other governments                 | 266,299             | 230,868               | 473,353               | 970,520               |
| Other receivables, net                     | 7,954               | -                     | -                     | 7,954                 |
| Due from other funds (Note 4)              | 978,880             | -                     | 18,139                | 997,019               |
| Inventories and prepaid items              | 28,421              | -                     | 25,726                | 54,147                |
| <b>Total Assets</b>                        | <b>\$ 4,531,510</b> | <b>230,868</b>        | <b>2,746,720</b>      | <b>7,509,098</b>      |
| <b>LIABILITIES AND FUND BALANCES</b>       |                     |                       |                       |                       |
| <b>Liabilities:</b>                        |                     |                       |                       |                       |
| Accounts payable and accrued liabilities   | \$ 315,256          | 198                   | 73,404                | 388,858               |
| Due to other funds (Note 4)                | 862,006             | 230,670               | 482,749               | 1,575,425             |
| Deferred revenue                           | -                   | -                     | 31,689                | 31,689                |
| <b>Total Liabilities</b>                   | <b>1,177,262</b>    | <b>230,868</b>        | <b>587,842</b>        | <b>1,995,972</b>      |
| <b>Fund Balances:</b>                      |                     |                       |                       |                       |
| <b>Reserved for:</b>                       |                     |                       |                       |                       |
| Inventory                                  | 15,006              | -                     | 25,726                | 40,732                |
| Prepaid Items                              | 13,415              | -                     | -                     | 13,415                |
| Unemployment benefits                      | -                   | -                     | 54,752                | 54,752                |
| Forestry improvements                      | -                   | -                     | 89,145                | 89,145                |
| Capital project purposes                   | -                   | -                     | 1,879                 | 1,879                 |
| Debt service purposes                      | -                   | -                     | 314,300               | 314,300               |
| Permanent fund purposes                    | -                   | -                     | 687,698               | 687,698               |
| <b>Unreserved:</b>                         |                     |                       |                       |                       |
| <b>Undesignated, reported in:</b>          |                     |                       |                       |                       |
| General fund                               | 3,325,827           | -                     | -                     | 3,325,827             |
| Special Revenue funds                      | -                   | -                     | 985,378               | 985,378               |
| <b>Total Fund Balances</b>                 | <b>3,354,248</b>    | <b>-</b>              | <b>2,158,878</b>      | <b>5,513,126</b>      |
| <b>Total Liabilities and Fund Balances</b> | <b>\$ 4,531,510</b> | <b>230,868</b>        | <b>2,746,720</b>      | <b>7,509,098</b>      |

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

Brookhaven School District  
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets  
June 30, 2006

Exhibit C-1

|   | <u>Amount</u>        |
|---|----------------------|
| Total Fund Balance - Governmental Funds   | \$ 5,513,126         |
| Amounts reported for governmental activities in the statement of net assets are different because:  |                      |
| 1. Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$5,763,753. (Note 5) | 17,943,895           |
| 2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds as follows.  |                      |
| Long-term liabilities (Note 6)  | (7,805,738)          |
| Accrued interest on debt  | <u>(104,265)</u>     |
| Total Net Assets - Governmental Activities  | \$ <u>15,547,018</u> |

Brookhaven School District

Exhibit D

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2006

|  | Major Funds         |                               | Other                 | Total                 |
|--|---------------------|-------------------------------|-----------------------|-----------------------|
|  | General<br>Fund     | Restart Katrina<br>Grant Fund | Governmental<br>Funds | Governmental<br>Funds |
| <b>Revenues:</b>   |                     |                               |                       |                       |
| Local sources  | \$ 6,580,010        | -                             | 1,696,018             | 8,276,028             |
| State sources  | 11,745,436          | -                             | 551,004               | 12,296,440            |
| Federal sources  | 149,065             | 231,462                       | 3,602,088             | 3,982,615             |
| Sixteenth section sources                                    | -                   | -                             | 501,639               | 501,639               |
| <b>Total Revenues</b>  | <b>18,474,511</b>   | <b>231,462</b>                | <b>6,350,749</b>      | <b>25,056,722</b>     |
| <b>Expenditures:</b>   |                     |                               |                       |                       |
| Instruction  | 9,680,507           | 231,462                       | 2,856,950             | 12,768,919            |
| Support services   | 6,866,878           | -                             | 1,017,990             | 7,884,868             |
| Noninstructional services                                    | 261,254             | -                             | 1,292,470             | 1,553,724             |
| Sixteenth section  | -                   | -                             | 45,351                | 45,351                |
| Facilities acquisition and construction                      | 176,901             | -                             | -                     | 176,901               |
| <b>Debt service:</b>   |                     |                               |                       |                       |
| Principal  | -                   | -                             | 1,690,000             | 1,690,000             |
| Interest   | -                   | -                             | 431,190               | 431,190               |
| Other  | -                   | -                             | 3,278                 | 3,278                 |
| <b>Total Expenditures</b>                                    | <b>16,985,540</b>   | <b>231,462</b>                | <b>7,337,229</b>      | <b>24,554,231</b>     |
| <b>Excess (Deficiency) of Revenues<br/>Over Expenditures</b> |                     |                               |                       |                       |
|  | <b>1,488,971</b>    | <b>-</b>                      | <b>(986,480)</b>      | <b>502,491</b>        |
| <b>Other Financing Sources (Uses):</b>                       |                     |                               |                       |                       |
| Proceeds of refunding bonds                                  | -                   | -                             | 1,116,000             | 1,116,000             |
| Sale of transportation equipment                             | 100                 | -                             | -                     | 100                   |
| Operating transfers in                                       | 1,163,520           | -                             | 381,838               | 1,545,358             |
| Operating transfers out                                      | (1,470,339)         | -                             | (75,019)              | (1,545,358)           |
| <b>Total Other Financing Sources (Uses)</b>                  | <b>(306,719)</b>    | <b>-</b>                      | <b>1,422,819</b>      | <b>1,116,100</b>      |
| <b>Net Change in Fund Balances</b>                           | <b>1,182,252</b>    | <b>-</b>                      | <b>436,339</b>        | <b>1,618,591</b>      |
| <b>Fund Balances:</b>  |                     |                               |                       |                       |
| July 1, 2005, as previously reported                         | 2,203,494           | -                             | 1,731,734             | 3,935,228             |
| Prior period adjustments & reclassifications                 | (23,818)            | -                             | (4,726)               | (28,544)              |
| July 1 2005, as restated                                     | 2,179,676           | -                             | 1,727,008             | 3,906,684             |
| Increase (Decrease) in reserve for inventory                 | (7,680)             | -                             | (4,469)               | (12,149)              |
| <b>June 30, 2006</b>   | <b>\$ 3,354,248</b> | <b>-</b>                      | <b>2,158,878</b>      | <b>5,513,126</b>      |

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

Brookhaven School District  
 Reconciliation of the Governmental Funds Statement of Revenues,  
 Expenditures and Changes in Fund Balances to the Statement of Activities  
 For the Year Ended June 30, 2006

Exhibit D-1

|   | <u>Amount</u>              |
|---|----------------------------|
| Net Change in Fund Balances - Governmental Funds  | \$ 1,618,591               |
| Amounts reported for governmental activities in the statement<br>of activities are different because:   |                            |
| 1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate these expenditures over the life of the assets. Capital asset purchases amounted to \$328,033 and the depreciation expense amounted to \$628,251. (Note 5)                       | (300,218)                  |
| 2. The issuance of long-term debt provides current financial resources to governmental funds, but the issuance increases long-term liabilities in the Statement of Net Assets.  | (1,116,000)                |
| 3. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of activity. (Note 6)  | 1,690,000                  |
| 4. 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 the following item: |                            |
| Losses on sales of capital assets   | (68)                       |
| 5. Expenses in the statement of activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds:  |                            |
| Compensated Absences  | (9,220)                    |
| 6. Governmental funds recognize interest on long-term debt when it becomes due, however, the statement of activities recognizes interest as it accrues regardless of when it becomes due.   | 11,748                     |
| 7. An increase (+)/decrease(-) in the reserve for inventory is reported as a direct increase/decrease to the fund balance in the governmental funds but is a decrease/increase in noninstructional service expenses in the Statement of Activities.   | <u>(12,149)</u>            |
| Change in Net Assets of Governmental Activities   | \$ <u><u>1,882,684</u></u> |

Brookhaven School District  
Statement of Fiduciary Net Assets  
June 30, 2006

Exhibit E

|  | <u>Agency<br/>Funds</u>  |
|--|--------------------------|
| <b>Assets</b>                            |                          |
| Cash and cash equivalents (Note 3)       | \$ 133,165               |
| Due from other funds (Note 4)            | <u>578,406</u>           |
| <b>Total Assets</b>                      | <u><u>\$ 711,571</u></u> |
| <b>Liabilities</b>                       |                          |
| Accounts payable and accrued liabilities | \$ <u>711,571</u>        |
| <b>Total Liabilities</b>                 | <u><u>\$ 711,571</u></u> |

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

Brookhaven School District  
Notes to Financial Statements  
For the Year Ended June 30, 2006

(1) Summary of Significant Accounting Policies.

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

A. Financial Reporting Entity.

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the school district's governing board. As defined by accounting principles generally accepted in the United States of America, the school district is considered an "other stand-alone government." The school district is a related organization of, but not a component unit of, the City of Brookhaven since the governing authority of the city selects a majority of the school district's board but does not have financial accountability for the school district. The Brookhaven 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 six 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 10).

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.

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.

Brookhaven School District  
Notes to Financial Statements  
For the Year Ended June 30, 2006

*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.

Restart Katrina Grant Fund - This is a special revenue fund for receipts and expenditures of the grant money received to restart school after Hurricane Katrina.

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.

Brookhaven School District  
Notes to Financial Statements  
For the Year Ended June 30, 2006

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.

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.

Brookhaven School District  
Notes to Financial Statements  
For the Year Ended June 30, 2006

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both governmental and fund financial statements..

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.

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

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

J. Long-term liabilities.

Long-term liabilities are the unmatured principal of bonds, warrants, notes, or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments. In the government-wide Statement of Net Assets, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column. See Note 6 for details.

K. 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.

Brookhaven School District  
Notes to Financial Statements  
For the Year Ended June 30, 2006

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."

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

Reserved for unemployment benefits - An account that represents a portion of the fund balance that is legally restricted for the payment of unemployment benefits.

Reserved for forestry improvement purposes - An account that represents a portion of the fund balance that is legally restricted for improving sixteenth section forest lands.

Reserved for capital projects - 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

Brookhaven School District  
Notes to Financial Statements  
For the Year Ended June 30, 2006

which it is restricted.

Reserved for debt service - 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 a portion of the fund balance that is legally restricted for investment purposes or borrowing by the school board for capital purposes.

M. Property Taxes.

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

N. Mississippi Adequate Education Program Revenues.

Revenues from the adequate education program are appropriated on a fiscal year basis and are recorded at the time the revenues are received from the state of Mississippi.

O. Compensated Absences.

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

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

(2) Changes in Accounting Standards

As required, the School District has implemented Government Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* for the current fiscal year. This Statement requires governments to evaluate major events effecting capital assets to determine whether they are impaired. Such events include physical damage, changes in legal or environmental factors, technology changes or obsolescence, changes in the manner or duration of use and construction stoppage. Appropriate note disclosures have been incorporated to comply with the requirements of this standard.

(3) 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.

Brookhaven School District  
Notes to Financial Statements  
For the Year Ended June 30, 2006

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$5,479,458 and \$133,165, respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and cash equivalents \$4,791,760 and Restricted Assets \$687,698. The Restricted assets represents the cash balance of the 16<sup>th</sup> section Principal funds (Permanent Funds) which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$6,443,747.

*Custodial Credit Risk-Deposits.* Custodial risk is defined as the risk that, in the event of a 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, 2006, \$0 of the district's bank balance of \$6,443,747 was exposed to custodial credit risk.

(4) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

|                            | Due From     | Due To    |
|----------------------------|--------------|-----------|
| Governmental funds:        |              |           |
| General fund               | \$ 978,880   | 862,006   |
| Restart Katrina Grant Fund |              | 230,670   |
| Other governmental funds   | 18,139       | 482,749   |
| Fiduciary Funds            | 578,406      |           |
| Total Funds                | \$ 1,575,425 | 1,575,425 |

The purpose of the interfund receivables and payables are to close-out federal program funds at year end. All interfund receivables and payables are expected to be repaid within one year.

B. Transfers In/Out.

|                          | Transfer In  | Transfers<br>Out |
|--------------------------|--------------|------------------|
| Governmental funds:      |              |                  |
| General fund             | \$ 1,163,520 | 1,470,339        |
| Other Governmental Funds | 381,838      | 75,019           |
| Total Funds              | \$ 1,545,358 | 1,545,358        |

The purposes of interfund transfers are to transfer federal program indirect costs to the General fund and to close out federal programs at year end. These transfers are consistent with the activities of the fund making the transfer.

Brookhaven School District  
Notes to Financial Statements  
For the Year Ended June 30, 2006

(5) Capital Assets.

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

|   | Balance<br>7-1-2005 | Additions | Retirements | Completed<br>Construction | Adjustments | Balance<br>6-30-2006 |
|---|---------------------|-----------|-------------|---------------------------|-------------|----------------------|
| <u>Non-depreciable capital assets:</u>      |                     |           |             |                           |             |                      |
| Land  | \$ 167,049          |           |             |                           |             | 167,049              |
| Construction in progress                    | 193,132             | 177,767   |             | (370,899)                 |             | -                    |
| Total non-depreciable capital assets        | 360,181             | 177,767   |             | (370,899)                 |             | 167,049              |
| <u>Depreciable capital assets:</u>          |                     |           |             |                           |             |                      |
| Buildings                                   | 19,621,928          |           |             |                           |             | 19,621,928           |
| Building improvements                       | 314,935             |           |             |                           |             | 314,935              |
| Improvements other than bldg                |                     |           |             | 370,899                   |             | 370,899              |
| Mobile equipment                            | 1,811,885           | 81,552    |             |                           |             | 1,893,437            |
| Furniture and equipment                     | 1,277,433           | 68,714    | (6,747)     |                           |             | 1,339,400            |
| Total depreciable capital Assets            | 23,026,181          | 150,266   | (6,747)     | 370,899                   |             | 23,540,599           |
| <u>Less accumulated depreciation for:</u>   |                     |           |             |                           |             |                      |
| Buildings                                   | (3,020,583)         | (367,219) |             |                           |             | (3,387,802)          |
| Building improvements                       | (104,645)           | (12,597)  |             |                           |             | (117,242)            |
| Improvements other than bldg                |                     | (14,836)  |             |                           |             | (14,836)             |
| Mobile equipment                            | (1,178,391)         | (101,260) |             |                           |             | (1,279,651)          |
| Furniture and equipment                     | (838,562)           | (132,339) | 6,679       |                           |             | (964,222)            |
| Total accumulated depreciation              | (5,142,181)         | (628,251) | 6,679       |                           |             | (5,763,753)          |
| Total depreciable capital assets, net       | 17,884,000          | (477,985) | 68          |                           |             | 17,776,846           |
| Governmental activities capital assets, net | \$ 18,244,181       | (300,218) | 68          |                           |             | 17,943,895           |

Depreciation expense was charged to the following governmental functions:

|                            | Amount     |
|----------------------------|------------|
| Instruction                | \$ 464,544 |
| Support services           | 127,597    |
| Non-instructional          | 36,110     |
| Total depreciation expense | \$ 628,251 |

Brookhaven School District  
Notes to Financial Statements  
For the Year Ended June 30, 2006

(6) Long-term liabilities.

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

|  | Balance<br>7-1-2005 | Additions        | Reductions         | Balance<br>6-30-2006 | Amounts due<br>within one<br>year |
|--|---------------------|------------------|--------------------|----------------------|-----------------------------------|
| A. General obligation bonds payable \$   | 6,410,000           | 1,116,000        | (300,000)          | 7,226,000            | 396,000                           |
| B. Certificates of participation payable | 1,220,000           |                  | (1,220,000)        |                      |                                   |
| C. Three mill notes payable              | 540,000             |                  | (170,000)          | 370,000              | 180,000                           |
| D. Compensated absences payable          | 200,518             | 9,220            |                    | 209,738              | 10,487                            |
| Total                                    | <u>\$ 8,370,518</u> | <u>1,125,220</u> | <u>(1,690,000)</u> | <u>7,805,738</u>     | <u>586,487</u>                    |

A. General obligation bonds payable.

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

| Description                                   | Interest<br>Rate | Issue<br>Date | Maturity<br>Date | Amount<br>Issued    | Amount<br>Outstanding |
|---|------------------|---------------|------------------|---------------------|-----------------------|
| General obligation bonds,<br>Series 2000      | Varies           | 04-01-00      | 04-01-20         | \$ 7,500,000        | 6,110,000             |
| General obligation ref.<br>Bonds, Series 2006 | 3.84%            | 01-10-06      | 07-15-16         | 1,116,000           | 1,116,000             |
| Total   |                  |               |                  | <u>\$ 8,616,000</u> | <u>7,226,000</u>      |

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

| Year Ending<br>June 30 | Principal           | Interest         | Total             |
|------------------------|---------------------|------------------|-------------------|
| 2007                   | 396,000             | 372,202          | 768,202           |
| 2008                   | 416,000             | 347,925          | 763,925           |
| 2009                   | 441,000             | 323,902          | 764,902           |
| 2010                   | 466,000             | 302,812          | 768,812           |
| 2011                   | 495,000             | 280,178          | 775,178           |
| 2012 - 2016            | 2,878,000           | 1,008,746        | 3,886,746         |
| 2017 - 2020            | 2,134,000           | 265,439          | 2,399,439         |
| Total                  | <u>\$ 7,226,000</u> | <u>2,901,204</u> | <u>10,127,204</u> |

Brookhaven School District  
Notes to Financial Statements  
For the Year Ended June 30, 2006

The amount of bonded indebtedness that can be incurred by the school district is limited by state statute. Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in state statutes, have been met. As of June 30, 2006, the amount of outstanding bonded indebtedness was equal to 10.36% of property assessments as of October 1, 2003. This debt will be retired from the Bond Debt Service Fund.

B. Certificates of participation payable.

As more fully explained in Note 11, 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 |
|-----------------|---------------|------------|---------------|---------------|--------------------|
| MAEP Bond Issue | Varies        | 01-01-98   | 07-17-17      | \$ 2,560,000  | 0                  |
| Total           |               |            |               | \$ 2,560,000  | 0                  |

C. Three mill notes payable.

Debt currently outstanding is as follows:

| Description | Interest Rate | Issue Date | Maturity Date | Amount Issued | Amount Outstanding |
|-------------|---------------|------------|---------------|---------------|--------------------|
|             | 4.69%         | 06-01-98   | 06-01-08      | \$ 1,550,000  | 370,000            |
| Total       |               |            |               | \$ 1,550,000  | 370,000            |

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

| Year Ending June 30 | Principal  | Interest | Total   |
|---------------------|------------|----------|---------|
| 2007                | 180,000    | 17,353   | 197,353 |
| 2008                | 190,000    | 8,911    | 198,911 |
| Total               | \$ 370,000 | 26,264   | 396,264 |

This debt will be retired from the Capital Improvement Loan Fund – Debt Service 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

Brookhaven School District  
Notes to Financial Statements  
For the Year Ended June 30, 2006

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 10.75% 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, 2006, 2005, and 2004 were \$1,373,458, \$1,203,137, and \$1,170,063, respectively, which equaled the required contributions for each year.

(8) Sixteenth Section Lands.

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

| Year Ending  | Amount                  |
|--------------|-------------------------|
| June 30      |                         |
| 2007         | \$ 16,172               |
| 2008         | 11,065                  |
| 2009         | 10,605                  |
| 2010         | 1,198                   |
| 2011         | 687                     |
| 2012 - 2016  | 2,253                   |
| 2017 - 2021  | 483                     |
| 2022 - 2026  | 483                     |
| 2027 - 2031  | 483                     |
| 2032 - 2036  | 483                     |
| 2037 - 2041  | 483                     |
| Thereafter   | <u>1,363</u>            |
| <b>Total</b> | <b>\$ <u>45,758</u></b> |

Brookhaven School District  
Notes to Financial Statements  
For the Year Ended June 30, 2006

(9) Prior Period Adjustments/Exhibits.

A summary of significant fund equity adjustments is as follows:

Exhibit B - Statement of Activities

| <u>Explanation(s)</u>   | <u>Amount</u> |
|---|---------------|
| 1. An adjustment to correct a prior year error in recording an asset or liability | (28,544)      |
| Total   | \$ (28,544)   |

Exhibit D - Statement of Revenue, Expenditures and changes in Fund Balance

| <u>Explanation(s)</u>   | <u>Amount</u> |
|---|---------------|
| 1. An adjustment to correct a prior year error in recording an asset or liability |               |
| a) General Fund   | (23,818)      |
| b) Other governmental funds   | ( 4,726)      |
| Total   | \$ (28,544)   |

(10) Risk Management.

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

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 119 school districts and covers risks of loss arising from injuries to the school district's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Bancorp South in Jackson. The funds in the trust account are used to pay any claim up to \$500,000. For a claim exceeding \$500,000, 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.

Brookhaven School District  
Notes to Financial Statements  
For the Year Ended June 30, 2006

(11) Trust Certificates.

A trust agreement dated January 1, 1998, was executed by and between the school district and Trustmark National Bank of Brookhaven, as trustees. The trust agreement authorized the issuance of trust certificates in the principal amount of \$2,560,000 to provide financing for the construction and renovation of school buildings and related facilities and equipment.

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 (B) 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.

The certificates were paid off during the fiscal year by the issuance of General Obligation Refunding bonds, Series 2006.

(12) Vocational School Consortium.

The school district entered into a Vocational Educational Agreement dated November 19, 1998 creating the Brookhaven-Lincoln County Regional Vocational Education Center. This center was created pursuant to the provisions of Section 37-31-73, Miss. Code Ann. (1972), and approved by the Mississippi Department of Education. The center includes the Brookhaven School District and Lincoln County School District.

Section 37-13-92(6), Miss. Code Ann. (1972), authorizes the above noted entities to enter into an agreement that would provide for the construction or operation of a regional vocational education center. Any such agreement should provide for a designated fiscal agent, providing the method of financing the construction and operation of such facilities, the manner in which such facilities are to be controlled and staffed and detail procedures for student admission and transportation services for those students.

The Brookhaven School District has been designated as the fiscal agent for the Brookhaven-Lincoln County Regional Vocational Education Center, and the operations of the center are included in its financial statements.

Brookhaven School District  
Notes to Financial Statements  
For the Year Ended June 30, 2006

The following Statement of Revenues, Expenditures and Changes in Fund Balance is presented to detail the financial activity of the Brookhaven-Lincoln County Regional Vocational Education Center.

Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds  
For the Year Ended June 30, 2006

|   |                         |
|---|-------------------------|
| Revenues  |                         |
| Local sources                                     |                         |
| Taxes   | \$ 361,089              |
| Tuition from other LEA's within the state:        |                         |
| Lincoln County School District                    | 164,093                 |
| Total tuition from other LEA's within the state   | <u>164,093</u>          |
| Total local sources                               | <u>525,182</u>          |
| State sources                                     | 347,298                 |
| Federal sources                                   | 40,454                  |
| Total Revenues                                    | <u>912,934</u>          |
| Expenditures                                      |                         |
| Salaries  | 772,419                 |
| Employee benefits                                 | 222,579                 |
| Purchased professional and technical services     | 302                     |
| Purchased property services                       | 58,173                  |
| Other purchased services                          | 4,563                   |
| Supplies  | 43,115                  |
| Property  | 31,742                  |
| Other   | 846                     |
| Total Expenditures                                | <u>1,133,739</u>        |
| Excess (Deficiency) of Revenues Over Expenditures | <u>(220,805)</u>        |
| Other Financing Sources/Uses:                     |                         |
| Operating Transfers In                            | 251,554                 |
| Operating Transfers Out                           | <u>(13,761)</u>         |
| Total Other Financing Sources/Uses                | <u>237,793</u>          |
| Net Change in Fund Balance                        | <u>16,988</u>           |
| Fund Balance:                                     |                         |
| July 1, 2005                                      | 14,942                  |
| June 30, 2006                                     | \$ <u><u>31,930</u></u> |

Brookhaven School District

REQUIRED SUPPLEMENTARY INFORMATION

Brookhaven School District  
 Budgetary Comparison Schedule  
 General Fund  
 For the Year Ended June 30, 2006

|  | Budgeted Amounts   |                    | Actual<br>(GAAP Basis) | Variances<br>Positive (Negative) |                    |
|--|--------------------|--------------------|------------------------|----------------------------------|--------------------|
|  | Original           | Final              |                        | Original<br>to Final             | Final<br>to Actual |
| <b>Revenues:</b>   |                    |                    |                        |                                  |                    |
| Local sources  | \$ 7,506,470       | \$ 6,580,311       | \$ 6,580,010           | \$ (926,159)                     | (301)              |
| State sources  | 11,538,821         | 11,745,950         | 11,745,436             | 207,129                          | (514)              |
| Federal sources  | 73,080             | 150,000            | 149,065                | 76,920                           | (935)              |
| Total Revenues   | <u>19,118,371</u>  | <u>18,476,261</u>  | <u>18,474,511</u>      | <u>(642,110)</u>                 | <u>(1,750)</u>     |
| <b>Expenditures:</b>   |                    |                    |                        |                                  |                    |
| Instruction  | 10,574,985         | 18,400,164         | 9,680,507              | (7,825,179)                      | 8,719,657          |
| Support services   | 6,741,925          | 6,901,746          | 6,866,878              | (159,821)                        | 34,868             |
| Noninstructional services                                    | 278,274            | 272,145            | 268,934                | 6,129                            | 3,211              |
| Facilities acquisition and construction                      | 300,000            | 177,000            | 176,901                | 123,000                          | 99                 |
| Total Expenditures   | <u>17,895,184</u>  | <u>25,751,055</u>  | <u>16,993,220</u>      | <u>(7,855,871)</u>               | <u>8,757,835</u>   |
| <b>Excess (Deficiency) of Revenues<br/>Over Expenditures</b> |                    |                    |                        |                                  |                    |
|  | <u>1,223,187</u>   | <u>(7,274,794)</u> | <u>1,481,291</u>       | <u>(8,497,981)</u>               | <u>(8,756,085)</u> |
| <b>Other Financing Sources (Uses):</b>                       |                    |                    |                        |                                  |                    |
| Sale of transportation equipment                             | -                  | 100                | 100                    | 100                              | -                  |
| Operating transfers in                                       | 1,604,228          | 1,163,532          | 1,163,520              | (440,696)                        | (12)               |
| Operating transfers out                                      | (2,690,967)        | (1,470,350)        | (1,470,339)            | 1,220,617                        | 11                 |
| Total Other Financing Sources (Uses)                         | <u>(1,086,739)</u> | <u>(306,718)</u>   | <u>(306,719)</u>       | <u>780,021</u>                   | <u>(1)</u>         |
| <b>Net Change in Fund Balances</b>                           |                    |                    |                        |                                  |                    |
|  | <u>136,448</u>     | <u>(7,581,512)</u> | <u>1,174,572</u>       | <u>(7,717,960)</u>               | <u>(8,756,084)</u> |
| <b>Fund Balances:</b>  |                    |                    |                        |                                  |                    |
| July 1, 2005, as previously reported                         |                    |                    | 2,203,494              |                                  |                    |
| Prior period adjustments & reclassifications                 |                    |                    | <u>(23,818)</u>        |                                  |                    |
| July 1, 2005, as restated                                    |                    |                    | 2,179,676              |                                  |                    |
| June 30, 2006  |                    |                    | <u>\$ 3,354,248</u>    |                                  |                    |

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

Brookhaven School District  
 Budgetary Comparison Schedule  
 Restart Katrina Grant Fund  
 For the Year Ended June 30, 2006

|  | Budgeted Amounts |         | Actual<br>(GAAP Basis) | Variances<br>Positive (Negative) |                    |
|--|------------------|---------|------------------------|----------------------------------|--------------------|
|  | Original         | Final   |                        | Original<br>to Final             | Final<br>to Actual |
| <b>Revenues:</b>                                     |                  |         |                        |                                  |                    |
| Federal sources                                      | -                | 231,462 | 231,462                | 231,462                          | -                  |
| Total Revenues                                       | -                | 231,462 | 231,462                | 231,462                          | -                  |
| <b>Expenditures:</b>                                 |                  |         |                        |                                  |                    |
| Instruction  | -                | 231,462 | 231,462                | (231,462)                        | -                  |
| Total Expenditures                                   | -                | 231,462 | 231,462                | (231,462)                        | -                  |
| Excess (Deficiency) of Revenues<br>Over Expenditures | -                | -       | -                      | -                                | -                  |
| <b>Other Financing Sources (Uses):</b>               |                  |         |                        |                                  |                    |
| Operating transfers in                               | -                | -       | -                      | -                                | -                  |
| Operating transfers out                              | -                | -       | -                      | -                                | -                  |
| Total Other Financing Sources (Uses)                 | -                | -       | -                      | -                                | -                  |
| Net Change in Fund Balances                          | -                | -       | -                      | -                                | -                  |
| <b>Fund Balances:</b>                                |                  |         |                        |                                  |                    |
| July 1, 2005   |                  |         | -                      |                                  |                    |
| June 30, 2006  |                  |         | \$ -                   |                                  |                    |

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

Brookhaven School District  
Notes to the Required Supplementary Information  
For the Year Ended June 30, 2006

Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(2) Budget amendments and revisions.

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

Brookhaven School District

SUPPLEMENTAL INFORMATION

Brookhaven School District  
 Schedule of Expenditures of Federal Awards  
 For the Year Ended June 30, 2006

| Federal Grantor/<br>Pass-through Grantor/<br>Program Title             | Catalog of<br>Federal Domestic<br>Assistance Number | Federal<br>Expenditures |
|--|---|-------------------------|
| <u>U.S. Department of Agriculture</u>                                  |   |                         |
| Passed-through Mississippi Department of Education:                    |   |                         |
| Non-cash assistance:   |   |                         |
| Food donation  | 10.550  | \$ 75,999               |
| Child nutrition cluster:   |   |                         |
| School breakfast program   | 10.553  | 193,266                 |
| National school lunch program  | 10.555  | 720,543                 |
| Summer food service program for children                               | 10.559  | 23,206                  |
| Total child nutrition cluster  |   | <u>937,015</u>          |
| Special supplemental nutrition program for women, infants and children | 10.557  | <u>15,151</u>           |
| Direct Award   |   |                         |
| Distance learning and telemedicine loans and grants                    | 10.855  | 99,714                  |
| Total U.S. Department of Agriculture                                   |   | <u>1,127,879</u>        |
| <u>U.S. Department of Education</u>                                    |   |                         |
| Passed-through Mississippi Department of Education:                    |   |                         |
| Title I - grants to local educational agencies                         | 84.010  | 902,291                 |
| Vocational education - basic grants to states                          | 84.048  | 40,454                  |
| Safe and drug-free schools and communities - state grants              | 84.186  | 15,816                  |
| State grants for innovative programs                                   | 84.298  | 7,771                   |
| Education technology state grants                                      | 84.318  | 16,768                  |
| Rural education  | 84.358  | 43,649                  |
| Hurricane Education Recovery Act                                       | 84.938  | 814,156                 |
| Improving teacher quality - state grants                               | 84.367  | 319,895                 |
| Student progress monitoring  | 84.369  | 39,871                  |
| Total  |   | <u>2,200,671</u>        |
| Special education cluster:   |   |                         |
| Special education - grants to states                                   | 84.027  | 462,810                 |
| Special education - preschool grants                                   | 84.173  | 23,805                  |
| Total  |   | <u>486,615</u>          |
| Total passed-through Mississippi Department of Education               |   | <u>2,687,286</u>        |
| Total U.S. Department of Education                                     |   | <u>2,687,286</u>        |
| <u>Other Federal Assistance</u>  |   |                         |
| Direct program:  |   |                         |
| Reserve Officers' Training Corps                                       | 12.XXX  | 49,916                  |
| Total Other Federal Assistance   |   | <u>49,916</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  | 70,156                  |
| Total Federal Communications Commission                                |   | <u>70,156</u>           |
| Total for All Federal Awards   |   | <u>\$ 3,935,237</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.

Brookhaven School District  
 Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds  
 For the Year Ended June 30, 2006

| Expenditures                 | Total         | Instruction and Other<br>Student Instructional<br>Expenditures | General<br>Administration | School<br>Administration | Other     |
|------------------------------|---------------|--|---------------------------|--------------------------|-----------|
| Salaries and fringe benefits | \$ 17,685,558 | 12,922,923   | 871,693                   | 1,326,441                | 2,564,501 |
| Other                        | 6,868,673     | 1,412,442  | 246,240                   | 88,235                   | 5,121,756 |
| Total                        | \$ 24,554,231 | 14,335,365   | 1,117,933                 | 1,414,676                | 7,686,257 |
| Total number of students *   | 2,820         |  |                           |                          |           |
| Cost per student \$          | 8,707         | 5,083  | 396                       | 502                      | 2,726     |

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

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

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

**School Administration** - includes expenditures for the following function: Support Services - School Administration (2400s)

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

include 100 and 200 range object codes on the "Salaries and fringe benefits" line; all other expenditures on the "Other" line

\*Month 9 ADA, 2005-06 School Year

Brookhaven School District

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

# **PATRICK E. LOWERY AND ASSOCIATES**

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

Superintendent and School Board  
Brookhaven School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Brookhaven School District as of and for the year ended June 30, 2006, which collectively comprise the Brookhaven School District's basic financial statements and have issued our report thereon dated September 17, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the school district's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance 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 over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

### Compliance and Other Matters

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

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

*Patrick E. Lowery and Associates*

Patrick E. Lowery & Associates  
Certified Public Accountants  
September 17, 2007

# **PATRICK E. LOWERY AND ASSOCIATES**

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

Superintendent and School Board  
Brookhaven School District

### Compliance

We have audited the compliance of the Brookhaven School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The school district's major federal programs are identified in the summary of auditor's results section of the Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the school district's management. Our responsibility is to express an opinion on the school district's compliance based on our audit.

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

In our opinion, Brookhaven School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

### Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses.

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



Patrick E. Lowery & Associates  
Certified Public Accountants  
September 17, 2007

Brookhaven School District

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

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

Superintendent and School Board  
Brookhaven School District

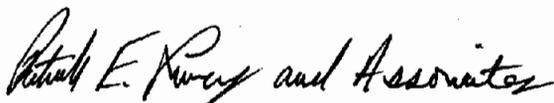
We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Brookhaven School District as of and for the year ended June 30, 2006, which collectively comprise Brookhaven School District's basic financial statements and have issued our report thereon dated December 13, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$4,335.00 of classroom supply funds carried over from previous years.

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

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



Patrick E. Lowery & Associates  
Certified Public Accountants  
September 17, 2007

Brookhaven School District

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Brookhaven School District

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2006

Section I: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

- |     |   |             |
|-----|---|-------------|
| 4.  | Type of auditor's report issued on compliance for major federal programs:   | Unqualified |
| 5.  | Internal control over major programs:   |             |
| a.  | Material weakness(es) identified?   | No          |
| b.  | Reportable condition(s) identified that are not considered to be material weaknesses?   | No          |
| 6.  | Any audit finding(s) reported as required by Section ____ .510(a) of Circular A-133?  | No          |
| 7.  | Federal programs identified as major programs:  |             |
| a.  | Hurricane Education Recovery Act<br>CFDA # 84.938   |             |
| b.  | Improving Teacher Quality State Grants<br>CFDA # 84.367   |             |
| 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          |

Brookhaven School District

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2006

Section 2: Financial Statement Findings

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

Section 3: Federal Award Findings and Questioned Costs

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