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**HANCOCK COUNTY SCHOOL DISTRICT**

Audited Financial Statements  
For the Year Ended June 30, 2006

**HANCOCK COUNTY SCHOOL DISTRICT**  
Table of Contents

<b>INDEPENDENT AUDITOR'S REPORT</b> .....	1
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b> .....	3
<b>BASIC FINANCIAL STATEMENTS</b>	
<u>Government-wide financial statements</u>	
Statement of Net Assets.....	12
Statement of Activities.....	13
<u>Governmental Fund Financial Statements</u>	
Balance Sheet.....	14
Reconciliation of Government Funds Balance Sheet to the Statement of Net Assets.....	15
Statement of Revenues, Expenditures and Changes in Fund Balance.....	16
Reconciliation of the Government Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities.....	17
Statement of Fiduciary Net Assets.....	18
<u>Notes to Financial Statements</u> .....	19
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Budgetary Comparison Schedules .....	36
Notes to the Required Supplementary Information.....	41
<b>SUPPLEMENTAL INFORMATION</b>	
Schedule of Expenditures of Federal Awards.....	42
Schedule of Instructional, Administrative and Other Expenditures – Governmental Funds.....	43
<b>REPORTS ON COMPLIANCE AND INTERNAL CONTROL</b>	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards.....	44
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.....	46
Independent Auditor's Report On Compliance with State Laws and Regulations.....	48
Schedule of Findings and Questioned Costs.....	50

**McDaniel CPA Firm**  
Certified Public Accountant / Financial Consultant

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of Certified Public  
Accountants

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

May 21, 2007

Superintendent and School Board  
Hancock County School District

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 Hancock County 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 May 21, 2007, on our consideration of the Hancock County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages (3) through (11) and the Budgetary Comparison Schedule and corresponding notes on pages (36) through (41) are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hancock County School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit 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 and is not a required part of the basic financial statements. 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.

*McDaniel CPA Firm*

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

The discussion and analysis of Hancock County 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 and 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.

The District is governed by the Board of Education that consists of five members. The Board has responsibility for setting policies for operation of the District and has full control of the distribution, allotment and disbursement of all revenues provided for its support and operation.

In addition, the Board is responsible for organizing the schools of the District; introducing special subjects for instruction; serving as custodian of school property; erecting, repairing and equipping school facilities and improvements; maintaining pupil discipline; carrying out public health programs such as vaccination requirements; regulating use of the schools by the public; prescribing rules and regulations for its own government and government of the schools; maintaining and operating the schools under its control for the time required by law; enforcing in the schools the courses of study and use of textbooks prescribed by law; making orders directed to the superintendent for the issuance of pay certificates for lawful purposes on any available funds of the District; providing and regulating athletic programs and other school activities; and performing other duties prescribed by law.

The District's enrollment for the 2005-2006 school year was 4023. The District operated four elementary schools, one middle school, one high school and one vocational center.

### **FINANCIAL HIGHLIGHTS**

- Total net assets increased \$19,552,691, which represents 115.00% increase from fiscal year 2005.
- General revenues account for \$36,549,400 in revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$17,134,183 of revenues. This increase in net assets is primarily due to the following: 1) the receipt of federal funds under the Displaced Students Grant and the Restart Grant which resulted from Hurricane Katrina and 2) insurance proceeds related to Hurricane Katrina.

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

- The District had \$ 34,125,997 in expenses; only \$ 17,134,183 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$ 36,549,400 were adequate to provide for these programs.
- Among major funds, the General Fund had \$ 24,816,575 in revenues and \$ 13,376,056 in expenditures. The General Fund's fund balance increased \$ 10,378,221 over the prior year. This increase is due primarily to the related the federal grant monies that were received due to Hurricane Katrina. A portion of salary related expenditures normally incurred in the General Fund were reported in the Displaced Students Grant Fund and Restart Fund.
- Capital assets, net of accumulated depreciation, decreased by \$ 1,233,181.
- Long-term debt decreased by \$ 2,000,128.

### OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

The government-wide financial statements can be found on pages 12 – 13.

**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.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 15 and 17, respectively.

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.

The basic governmental fund financial statements can be found on pages 14 and 17 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The school district's fiduciary activities are presented in separate Statements of Fiduciary Net Assets on page 18.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19 -35 of this report.

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

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major special revenue fund. This required supplementary information can be found on pages 36 - 41 of this report.

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 can be found on page 42 and 43, respectively, of this report.

#### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net assets.** Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$ 36,486,903 as of June 30, 2006.

Of the District's net assets (34%) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment, and construction in, 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.

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 as June 30, 2006 and 2005, respectively.

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

	<b>Net Assets</b>		<b>Percentage Change</b>
	<b>June 30, 2006</b>	<b>June 30, 2005</b>	
Current Assets	\$ 27,026,768	6,484,980	316.76%
Capital Assets, Net	33,095,122	34,328,303	-3.59%
<b>Total Assets</b>	<b>60,121,890</b>	<b>40,813,283</b>	<b>47.31%</b>
Current Liabilities	2,784,284	3,021,637	-7.86%
Long-term debt outstanding	20,850,703	20,857,434	-0.03%
<b>Total Liabilities</b>	<b>23,634,987</b>	<b>23,879,071</b>	<b>-1.02%</b>
Net Assets:			
Invested in capital assets, net of related debt	12,445,122	11,806,076	5.41%
Restricted	19,508,938	4,009,331	386.59%
Unrestricted	4,532,843	1,118,805	305.15%
<b>Total Net Assets</b>	<b>\$ 36,486,903</b>	<b>16,934,212</b>	<b>115.46%</b>

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

- Current assets increase from the previous year due primarily to an increase in amounts due from other governments.
- The principal retirement of \$2,000,128 of long-term debt.
- Restricted net assets increased from the prior fiscal year due primarily to an increase in amounts restricted for capital projects which was a result of Hurricane Katrina.

**Changes in net assets.** The District's total revenues for the fiscal year ended June 20, 2006 were \$53,683,583. The total cost of all programs and services was \$ 34,125,997. The following table presents a summary of the changes in net assets for the fiscal years ending June 30, 2006 and 2005, respectively.

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

	<u>Change in Net Assets</u>		<u>Percentage Change</u>
	<u>June 30, 2006</u>	<u>June 30, 2005</u>	
<b>Revenues:</b>			
Program Revenues:			
Charges for Services	\$ 340,359	\$ 804,104	-57.67%
Operating grants and contributions	16,663,680	7,287,547	128.66%
Capital grants and contributions	130,144	133,240	-2.32%
General revenues:			
Property taxes	10,450,295	10,339,746	1.07%
Grants and contributions not restricted	13,177,341	12,089,502	9.00%
Other	12,921,764	454,623	2742.30%
<b>Total revenues</b>	<u>53,683,583</u>	<u>31,108,762</u>	<u>2821.03%</u>
<b>Expenses:</b>			
Instruction	18,197,712	16,701,349	8.96%
Support Services	13,473,604	9,509,061	41.69%
Non-instructional	1,706,963	1,872,852	-8.86%
Sixteenth Section	10,926	5,457	100.22%
Interest and other expense on long-term liabilities	736,792	1,148,439	-35.84%
<b>Total expenses</b>	<u>34,125,997</u>	<u>29,237,158</u>	<u>16.72%</u>
<b>Increase (Decrease) in net assets</b>	<u>19,557,586</u>	<u>1,871,604</u>	<u>944.96%</u>
<b>Net Assets, July 1</b>	<u>16,934,212</u>	<u>15,120,617</u>	<u>11.99%</u>
<b>Prior period adjustment</b>	<u>(4,895)</u>	<u>(58,009)</u>	<u>-91.56%</u>
<b>Net Assets, June 30</b>	<u>\$ 36,486,903</u>	<u>\$ 16,934,212</u>	<u>115.46%</u>

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

- Program revenues increased from the prior fiscal year due primarily to an increase in operating grants and contribution related to Hurricane Katrina.
- General revenues increased from the prior fiscal year due primarily to the receipt of insurance proceeds related to Hurricane Katrina.

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

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

	2006		2005	
	Total Expenses	Net(Expense) Revenue	Total Expenses	Net(Expense) Revenue
Instruction	\$ 18,197,712	\$ (7,161,203)	\$ 16,701,349	\$ (12,438,714)
Support Services	13,473,604	(8,830,624)	9,509,061	(7,838,674)
Non-instructional	1,706,963	(264,764)	1,872,852	419,017
Sixteenth Section	10,926	1,569	5,457	(5,457)
Interest and other expenses on long-term liabilities	736,792	(736,792)	1,148,439	(1,148,439)
<b>Total expenses</b>	<b>\$ 34,125,997</b>	<b>\$ (16,991,814)</b>	<b>\$ 29,237,158</b>	<b>\$ (21,012,267)</b>

- Net cost of governmental activities (\$16,991,814), was financed by general revenue, which is made up of primarily property taxes \$ 10,450,295 ; state revenue \$ 13,112,211, and other revenues, mainly insurance proceeds, of \$ 12,295,209.
- Investment earnings accounted for \$ 454,506 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 the year, its governmental funds reported a combined fund balance of \$ 24,452,788, an increase of \$18,612,922. \$ 6,096,610 of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$ 18,356,178 is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$ 10,378,221 a result of reclassification of a portion of salary related expenditures to the Displaced Students Grant Fund and Restart Fund which resulted from Hurricane

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

Katrina. The fund balance of Other Governmental Funds showed an increase of \$ 622,279 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.

- Budgeted amounts for instruction and support services expenditures in the Displaced Students Grant Fund were increased during the fiscal year. Revenue and expenditures related to this grant 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 were \$44,841,693, including land, school buildings, busses, other school vehicles and furniture and equipment. This amount represents an decrease of \$ 2,527,183 from the previous year. Total accumulated depreciation as of June 30, 2006 was \$11,746,751 and total depreciation expense for the year was \$1,175,250, resulting in total net assets of \$33,095,122.

	<u>Capital Assets, Net of Depreciation</u>		<u>Percentage Change</u>
	<u>2006</u>	<u>2005</u>	
Land	483,495	483,495	0%
Construction in progress	1,208,273	-	
Buildings	27,072,462	30,749,993	-12%
Improvements other than buildings	1,682,123	1,534,049	10%
Mobile equipment	2,456,030	1,446,167	70%
Furniture and equipment	192,739	114,599	68%
<b>Total</b>	<u>33,095,122</u>	<u>34,328,303</u>	-4%

Additional information of the District's capital assets can be found in Note 5 on page 28 of this report.

**Debt Administration.** At June 30, 2006, the District had \$ 20,850,703 in general obligation bonds and other long-term debt outstanding, of which \$3,007,520 is due within one year.

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

	Outstanding Debt		Percentage Change
	2006	2005	
General obligation bonds payable	15,810,000	17,415,000	-9%
Limited obligation bonds payable	4,840,000	5,115,000	-5%
Shortfall notes payable	62,520	123,105	-49%
Obligations under capital leases	-	52,812	-100%
Compensated absences payable	138,183	144,914	-5%
<b>Total</b>	<b>20,850,703</b>	<b>22,850,831</b>	<b>-9%</b>

The District maintains an A3 bond rating with Moody's.

Additional information of the District's long-term debt can be found in Note 6 on page 29 of this report.

**CURRENT ISSUES**

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

The District has committed itself to financial excellence for many years. The millage has not changed for the past 4 years. New home construction and new business properties have enabled the district to maintain a tax millage. In addition, the District 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.

Latest enrollment figures indicate that student enrollment in the District will not change substantially. The budget for the next fiscal year has taken into account this in both funding and staffing needs.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

If you have questions about this report, contact the Superintendent's Office of the Hancock County School District, 17304 Hwy. 603, Kiln, MS, 39556.

**BASIC FINANCIAL STATEMENTS**

**HANCOCK COUNTY SCHOOL DISTRICT**  
**Statement of Net Assets**  
**June 30, 2006**

Exhibit A

	<u>Governmental Activities</u>
<b>Assets:</b>	
Cash and cash equivalents	\$ 20,837,899
Cash with fiscal agents	174,761
Investments	68,609
Due from other governments	5,378,931
Inventories and prepaid items	116,573
Restricted assets	449,995
Capital assets, not being depreciated:	
Land	483,495
Construction in progress	1,208,273
Capital assets, net of accumulated depreciation:	
Buildings	27,072,462
Improvements other than buildings	1,682,123
Mobile equipment	2,456,030
Furniture and equipment	192,739
<b>Total Assets</b>	<u><u>60,121,890</u></u>
<b>Liabilities:</b>	
Accounts payable and accrued liabilities	2,573,980
Interest payable on long-term liabilities	210,304
Long-term liabilities, due within one year	
Capital related liabilities	2,945,000
Non-capital related liabilities	62,520
Long-term liabilities, due beyond one year	
Capital related liabilities	17,705,000
Non-capital related liabilities	138,183
<b>Total Liabilities</b>	<u><u>23,634,987</u></u>
<b>Net Assets:</b>	
Investment in capital assets, net of related debt	12,445,122
Restricted net assets:	
Expendable:	
School-based activities	169,646
Debt service	589,513
Capital improvements	18,071,010
Forestry improvements	30,308
Unemployment benefits	105,536
Non-expendable:	
Sixteenth section	542,925
Unrestricted	4,532,843
<b>Total Net Assets</b>	<u><u>36,486,903</u></u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 60,121,890</u></u>

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

**HANCOCK COUNTY SCHOOL DISTRICT**  
Statement of Activities  
For the Year Ended June 30, 2006

Exhibit B

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges For Services	Operating Grants and Contributions	
Primary Government:				
Governmental Activities:				
Instruction	\$ 18,197,712	152,890	10,883,619	\$ (7,161,203)
Support Services	13,473,604		4,512,836	(8,830,624)
Non-instructional	1,706,963	174,974	1,267,225	(264,764)
Sixteenth section	10,926	12,495		1,569
Interest on long-term liabilities	736,792			(736,792)
Total governmental activities	\$ 34,125,997	340,359	16,663,680	(16,991,814)

General Revenues:	
Taxes:	
General purpose levies	8,052,029
Debt purpose levies	2,398,266
Unrestricted grants and contributions:	
State	13,112,211
Federal	65,130
Unrestricted investment earnings	454,506
Sixteenth section sources	172,049
Other	12,295,209
Total General Revenues	36,549,400

Change in Net Assets	19,557,586
Net Assets - Beginning	16,934,212
Prior period adjustment	(4,895)
Net Assets-Beginning - Restated	16,929,317
Net Assets - Ending	\$ 36,486,903

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

HANCOCK COUNTY SCHOOL DISTRICT  
Balance Sheet - Governmental Funds  
June 30, 2006

Exhibit C

	Major Funds						Total Governmental Funds
	General Fund	Displaced Grant Fund	Restart Grant Fund	FEMA MIEMA Fund	Hurricane Katrina Fund	Other Governmental Funds	
<b>ASSETS</b>							
Cash and cash equivalents	\$ 9,174,277		52,600		8,055,956	4,005,061	\$ 21,287,894
Cash with fiscal agents						174,761	174,761
Investments						68,609	68,609
Due from other governments	419,066	1,907,565	367,136	2,224,540		460,626	5,378,933
Due from other funds	14,105,441					34,410	14,139,851
Advance to other funds						129,125	129,125
Inventories and prepaid items						116,573	116,573
<b>Total Assets</b>	<b>23,698,784</b>	<b>1,907,565</b>	<b>419,736</b>	<b>2,224,540</b>	<b>8,055,956</b>	<b>4,989,165</b>	<b>41,295,746</b>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>Liabilities:</b>							
Accounts payable and accrued liabilities	1,623,280		52,600		601,718	296,384	2,573,982
Due to other funds	9,212,101	1,907,565	367,136	2,066,356		586,693	14,139,851
Advances from other funds	129,125						129,125
<b>Total Liabilities</b>	<b>10,964,506</b>	<b>1,907,565</b>	<b>419,736</b>	<b>2,066,356</b>	<b>601,718</b>	<b>883,077</b>	<b>16,842,958</b>
<b>Fund Balances:</b>							
Reserved for:							
Advances						129,125	129,125
Inventory						116,573	116,573
Debt Service						1,735,971	1,735,971
Unemployment benefits						105,536	105,536
Forestry improvement purposes						17,813	17,813
Permanent fund purposes						542,925	542,925
Unreserved:							
Designated for, reported in:							
Capital Projects	9,830,354			158,184	7,454,238		17,442,776
Undesignated, reported in:							
General Fund	2,903,924						2,903,924
Special Revenue funds						761,193	761,193
Capital project funds						696,952	696,952
<b>Total Fund Balances</b>	<b>12,734,278</b>	<b>-</b>	<b>-</b>	<b>158,184</b>	<b>7,454,238</b>	<b>4,106,088</b>	<b>24,452,788</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 23,698,784</b>	<b>1,907,565</b>	<b>419,736</b>	<b>2,224,540</b>	<b>8,055,956</b>	<b>4,989,165</b>	<b>\$ 41,295,746</b>

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

HANCOCK COUNTY SCHOOL DISTRICT  
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets  
June 30, 2006

Exhibit C-1

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	<u>Amount</u>
Total fund balance - governmental funds	\$ 24,452,788
Amount 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 \$ 11,746,571.	33,095,122
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(20,850,703)
3. Interest payable on long-term liabilities	(210,304)
Total net assets - governmental activities	<u>\$ 36,486,903</u>

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

HANCOCK COUNTY SCHOOL DISTRICT  
 Statement of Revenues, Expenditures and Changes in Fund Balances  
 Governmental Funds  
 For the Year Ended June 30, 2006

Exhibit D

	Major Funds					Other Governmental Funds	Total Governmental Funds
	General Fund	Displaced Grant Fund	Restart Grant Fund	Fema Mema Fund	Hurricane Katrina Fund		
<b>Revenues:</b>							
Local sources	\$ 9,045,816					3,016,651	\$ 12,062,467
State sources	15,654,695					1,169,686	16,824,381
Federal sources	116,064	3,269,565	6,279,701	2,542,685		3,638,770	15,846,785
Sixteenth section sources						211,802	211,802
<b>Total Revenues</b>	<b>24,816,575</b>	<b>3,269,565</b>	<b>6,279,701</b>	<b>2,542,685</b>		<b>8,036,909</b>	<b>44,945,435</b>
<b>Expenditures:</b>							
Instruction	7,231,221	3,269,565	4,106,574	538,124	169,040	2,862,882	18,177,406
Support services	5,926,669		2,173,127	435,703	4,623,747	1,176,150	14,335,396
Noninstructional services	47,272				7,621	1,665,351	1,721,244
Sixteenth section						5,070	5,070
Facilities acquisition and construction	108,387			1,410,674			1,519,061
Debt service:							
Principal	52,812					1,940,585	1,993,397
Interest	9,695					899,919	909,614
<b>Total Expenditures</b>	<b>13,376,056</b>	<b>3,269,565</b>	<b>6,279,701</b>	<b>2,384,501</b>	<b>4,800,408</b>	<b>8,550,957</b>	<b>38,661,188</b>
Excess (deficiency) of revenues over expenditures	11,440,519	-	-	158,184	(4,800,408)	(514,048)	6,284,247
<b>Other Financing Sources (Uses):</b>							
Insurance loss recoveries	1,857				12,254,646		12,256,503
Operating transfers in	11,460,744					1,123,567	12,584,311
Operating transfers out	(12,518,980)					(67,331)	(12,584,311)
Other financing uses						(5,856)	(5,856)
<b>Total Other Financing Sources (Uses)</b>	<b>(1,054,379)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,254,646</b>	<b>1,050,380</b>	<b>12,250,647</b>
<b>Net change in fund balances</b>	<b>10,386,140</b>	<b>-</b>	<b>-</b>	<b>158,184</b>	<b>7,454,238</b>	<b>536,332</b>	<b>18,534,894</b>
<b>Fund Balances:</b>							
July 1, 2005	2,356,057					3,483,809	5,839,866
Prior period adjustments	(7,919)					3,024	(4,895)
July 1, 2005, as restated	2,348,138					3,486,833	5,834,971
Increase in reserve for inventory						82,923	82,923
<b>June 30, 2006</b>	<b>\$ 12,734,278</b>	<b>-</b>	<b>-</b>	<b>158,184</b>	<b>7,454,238</b>	<b>4,106,088</b>	<b>24,452,788</b>

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

HANCOCK COUNTY SCHOOL DISTRICT  
 Reconciliation of Governmental Funds Statement of Revenues,  
 Expenditures and Changes in Fund Balances to the Statement of Activities  
 For the Year Ended June 30, 2006

Exhibit D-1

	<u>Amount</u>
Net change in fund balances - governmental funds	\$ 18,534,894
Amounts reported for governmental activities in the statement of activities are different because:	
1. Governmental funds report capital outlays as expenditures while the governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchase amounted to \$ 3,460,423 and the depreciation expense amounted to (\$ 1,175,250).	2,285,173
2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of activities.	1,993,397
3. 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.	172,822
4. Gains and losses on the sale or disposals of assets not reported in the governmental funds, but are reported in the statement of activities, net of proceeds.	(3,518,354)
5. Increase (decrease) in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are (decreased) increased in the statement of activities.	82,923
6. 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	6,731
 Change in net assets of governmental activities	 <u>\$ 19,557,586</u>

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

**HANCOCK COUNTY SCHOOL DISTRICT**  
Statement of Net Assets - Fiduciary Funds  
June 30, 2006

Exhibit E

	<u>Agency Funds</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 84,436
<b>Total Assets</b>	<u>84,436</u>
<b>Liabilities</b>	
Due to other governments	5,001
Due to student clubs	79,435
<b>Total Liabilities</b>	<u>\$ 84,436</u>

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

**NOTES TO FINANCIAL STATEMENTS**

# HANCOCK COUNTY SCHOOL DISTRICT

Notes to the 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 a "primary government." The school district is governed by a 5 member board which each member was elected by the citizens of each defined county district.

### B. Basis of Presentation.

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

#### *Government - Wide Financial Statements:*

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

#### *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

## HANCOCK COUNTY SCHOOL DISTRICT

### Notes to the Financial Statements For the Year Ended June 30, 2006

assets, liabilities, fund equity revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category.

#### C. Measurement Focus and Basis of Accounting.

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting 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 flow takes 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 another fund.

Displaced Grant Fund – This fund accounts for federal funds for Hurricane Katrina.

Restart Grant Fund – This fund accounts for federal funds received for Hurricane Katrina.

FEMA/MEMA Fund – This fund accounts for federal funds received for Hurricane Katrina.

Hurricane Katrina Fund – This fund accounts for insurance proceeds received due to Hurricane Katrina.

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

# HANCOCK COUNTY SCHOOL DISTRICT

## Notes to the Financial Statements For the Year Ended June 30, 2006

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 cost.

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 *Government 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 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.

**HANCOCK COUNTY SCHOOL DISTRICT**

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

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

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

Investments are reported at fair value.

H. Inventories and Prepaid Items.

Donated commodities are received from the USDA and are valued at USDA cost. Other inventories are valued at cost (calculated on the first-in, first-out basis).

The costs of governmental fund type inventories are reported as expenditures when purchased.

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

I. Capital Assets.

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

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

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are reported in the government-wide statements.

Depreciation is calculated on the straight-line basis for all assets, except land. The following schedule details those thresholds.

	Capitalization Policy	Estimated Useful Life
Land	-	-
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:

# HANCOCK COUNTY SCHOOL DISTRICT

## Notes to the Financial Statements For the Year Ended June 30, 2006

### J. Long-term liabilities.

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

### K. Interfund Transactions and Balances.

Interfund transactions and balances are the result of timing differences between the date expenses/expenditures occur and the date payments are made. Short-term (due within one year) interfund loan receivables are reported as "due from other funds" and are considered available expendable resources. Noncurrent portions of long-term interfund loan receivables are reported as advances and are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and, therefore, are not available for appropriation.

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

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

### L. Equity Classifications.

#### *Government-Wide Financial Statements:*

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

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

#### *Fund Financial Statements:*

## HANCOCK COUNTY SCHOOL DISTRICT

### Notes to the Financial Statements For the Year Ended June 30, 2006

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

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

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

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

Reserved for 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 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 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.

Unreserved – designated for, reported in capital projects funds – An account that represents a portion of the unreserved fund balance that the school board has specifically obligated for future repairs, renovations, and construction projects of district buildings and facilities.

#### M. Property Taxes.

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

#### N. Mississippi Adequate Education Program Revenues.

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

#### O. Compensated Absences.

## HANCOCK COUNTY SCHOOL DISTRICT

### Notes to the Financial Statements For the Year Ended June 30, 2006

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 Hancock County School District has implemented Governmental 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, and Cash with Fiscal Agents.**

The collateral for public entities' deposits in financial institutions is now held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$ 21,287,894, and \$ 84,436, respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and cash equivalents \$ 20,837,899 and Restricted Assets \$ 449,995. 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 \$ 23,964,104.

*Custodial Credit Risk – Deposits.* Custodial credit risk is defined as the risk that, in the event of a financial institutions failure, the district's deposits may not be returned to it. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages the risk on behalf of the district. As of June 30, 2006, none of the district's bank balance of \$ 23,964,104 was exposed to custodial credit risk.

**HANCOCK COUNTY SCHOOL DISTRICT**

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

Cash with Fiscal Agents.

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$ 174,761.

**(4) Interfund Transactions and Balances.**

The following is a summary of interfund transactions and balances:

**A. Due From / To Other Funds:**

	<u>Due From</u>	<u>Due To</u>
Governmental Funds:		
General fund	\$ 14,105,441	9,212,101
Displaced Grant fund		1,907,565
Restart Grant fund		367,136
Fema/Mema fund		2,066,356
Other governmental funds	34,410	586,693
Total	<u>\$ 14,139,851</u>	<u>14,139,851</u>

The purpose of interfund loans was to cover federal funds not received prior to year-end.

**B. Advances To/From Other Funds:**

	<u>Advances To</u>	<u>Advances From</u>
Governmental Funds:		
General fund	\$ -	129,125
Other governmental funds	129,125	
Total	<u>\$ 129,125</u>	<u>129,125</u>

Note: The sixteenth section principal loans payable is not reflected on the statement of net assets because these funds were borrowed by the General Fund from the sixteenth section trust fund (Permanent Trust) in accordance with

**HANCOCK COUNTY SCHOOL DISTRICT**

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

Section 29-3-113, Miss. Code Ann. (1972). The revenues and expenditures associated with these transactions were reflected on Exhibit D-1.

Sixteenth section principal loans payable.

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

Year Ending June 30	Principal	Interest	Total
2007	32,825	5,165	37,990
2008	30,825	3,492	34,317
2009	21,825	2,619	24,444
2010	21,825	1,746	23,571
2011	21,825	873	22,698
Total	<u>\$ 129,125</u>	<u>13,895</u>	<u>\$ 143,020</u>

C. Transfers In/Out.

	Transfers In	Transfers Out
Governmental Funds:		
General fund	\$ 11,460,744	12,516,980
Other governmental funds	1,123,567	67,331
Total	<u>\$ 12,584,311</u>	<u>12,584,311</u>

The principal purpose of interfund transfers was to provide funds to pay for debt service payments or to provide funds for daily operations. All interfund transfers were routine and consistent with the activities of the fund making the transfer.

**HANCOCK COUNTY SCHOOL DISTRICT**

Notes to the 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 <u>7/1/2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Completed Construction</u>	<u>Adjustments</u>	Balance <u>6/30/2006</u>
<u>Non-depreciable capital</u>						
Land	\$ 483,495					\$ 483,495
Construction in progress	-	1,208,273				1,208,273
<b>Total non-depreciable</b>	<b>483,495</b>	<b>1,208,273</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,691,768</b>
<u>Depreciable capital assets</u>						
Buildings	40,040,342		(4,221,971)			35,818,371
Improvements other than buildings	1,992,333	310,788	(148,943)			2,154,178
Mobile equipment	3,751,333	1,800,593	(1,328,021)			4,223,905
Furniture and equipment	1,101,373	140,769	(288,671)			953,471
<b>Total depreciable capital</b>	<b>46,885,381</b>	<b>2,252,150</b>	<b>(5,987,606)</b>	<b>-</b>	<b>-</b>	<b>43,149,925</b>
<u>Less accumulated:</u>						
Buildings	9,290,349	704,563	(1,249,003)			8,745,909
Improvements other than buildings	458,284	84,647	(70,876)			472,055
Mobile equipment	2,305,166	340,235	(877,526)			1,767,875
Furniture and equipment	986,774	45,805	(271,847)			760,732
<b>Total accumulated depreciation</b>	<b>13,040,573</b>	<b>1,175,250</b>	<b>(2,469,252)</b>	<b>-</b>	<b>-</b>	<b>11,746,571</b>
<b>Total depreciable capital assets, net</b>	<b>33,844,808</b>	<b>1,076,900</b>	<b>(3,518,354)</b>	<b>-</b>	<b>-</b>	<b>31,403,354</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 34,328,303</b>	<b>2,285,173</b>	<b>(3,518,354)</b>	<b>-</b>	<b>-</b>	<b>\$ 33,095,122</b>

Depreciation expense was charged to the following governmental functions:

**HANCOCK COUNTY SCHOOL DISTRICT**

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

	<u>Amount</u>
Instruction	\$ 762,052
Support Services	343,316
Non-instructional	69,882
Total depreciation expense	<u><u>\$ 1,175,250</u></u>

**(6) Long-term liabilities.**

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

	<u>Balance</u> <u>7-1-2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6-30-2006</u>	<u>Amounts due</u> <u>within one</u> <u>year</u>
A. General obligation bonds payable	\$ 17,415,000		(1,605,000)	15,810,000	\$ 2,660,000
B. Limited obligation bonds payable	5,115,000		(275,000)	4,840,000	285,000
C. Shortfall notes payable	123,105		(60,585)	62,520	62,520
D. Obligations under energy efficiency lease	52,812		(52,812)	-	-
E. Compensated absences payable	144,914		(6,731)	138,183	
Total	<u><u>\$ 22,850,831</u></u>	<u>-</u>	<u>(2,000,128)</u>	<u>20,850,703</u>	<u>\$ 3,007,520</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:

**HANCOCK COUNTY SCHOOL DISTRICT**

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
General obligation bonds Series 1998	5.05 - 5.5%	10/15/1997	10/15/2014	\$ 20,000,000	900,000
General obligation refunding bonds, Series 2004	2.00-5.00%	10/28/2004	10/15/2014	14,200,000	13,955,000
General obligation school refinancing bonds, Series 2002	2.66%	11/25/2002	11/25/2007	3,205,000	955,000
Total				<u>\$ 37,405,000</u>	<u>15,810,000</u>

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	2,660,000	596,198	2,285,886
2008	2,130,000	528,132	2,658,132
2009	1,895,000	469,325	2,364,325
2010	2,010,000	374,575	2,384,575
2011	2,105,000	274,075	2,379,075
2012-2016	5,010,000	352,400	5,362,400
Total	<u>\$ 15,810,000</u>	<u>2,594,705</u>	<u>\$ 17,434,393</u>

The amount of bonded indebtedness that can be incurred by the school district is limited by state statute. Total outstanding bonded indebtedness during a year can be no greater than 15 % of the assessed value of the taxable property within such district, according to the 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 6.3% of property assessments as of October 1, 2005. This debt will be retired from the debt service fund.

**Current Refunding.**

On October 28, 2004, the district issued \$ 14,200,000 in bonds with an average interest rate of 3.00 percent to advance refund \$ 13,975,000 of outstanding bonds with an average interest rate of 5.3 percent. The net proceeds of \$ 14,200,000

**HANCOCK COUNTY SCHOOL DISTRICT**

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

after payments of \$ 77,000 for issuance costs were deposited in an irrevocable trust with an escrow agent to provide for all future debt payment requirements on the bonds.

As a result, the 1998 general obligation bond series are considered to be defeased and the liability for those bonds has been removed from long-term liabilities.

The district advance refunded the 1998 general obligation bond series to reduce its total debt service payments over the remaining eight years of the debt by approximately \$ 939,332 and to obtain an economic gain of \$ 939,332.

**B. Limited obligation bonds payable.**

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
State aid capital improvement MAEP Note	4.5-6.375%	2/1/1998	2/1/2018	5,905,000	4,840,000
<b>Total</b>				<b>\$ 5,905,000</b>	<b>\$ 4,840,000</b>

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	285,000	217,220	502,220
2008	300,000	202,095	502,095
2009	315,000	188,258	503,258
2010	330,000	173,745	503,745
2011	350,000	158,270	508,270
2012-2016	2,010,000	527,075	2,537,075
2017-2018	1,250,000	70,201	1,320,201
<b>Total</b>	<b>\$ 4,840,000</b>	<b>1,536,864</b>	<b>\$ 6,376,864</b>

This debt will be retired from the debt service fund.

**C. Shortfall Notes Payable.**

**HANCOCK COUNTY SCHOOL DISTRICT**

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Shortfall Note Payable	various	8/1/2004	8/1/2006	182,000	62,520
Total				<u>\$ 182,000</u>	<u>\$ 62,520</u>

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	62,520	1,998	64,518
Total	<u>\$ 62,520</u>	<u>1,998</u>	<u>\$ 64,518</u>

This debt will be retired from the debt service fund.

D. Obligations under energy efficiency lease.

This debt was retired during the current year.

E. Compensated absences payable.

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

# HANCOCK COUNTY SCHOOL DISTRICT

## Notes to the Financial Statements For the Year Ended June 30, 2006

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 Employee's Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, Mississippi 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 \$ 1,643,291, \$1,641,473, and \$1,439,630, 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 therefrom as trust property. Accordingly, the board shall assure that adequate compensation is received for all uses of the trust lands, except for uses by the public schools. The following are the future rental payments to be made to the school district for the use of school trust lands. These future rental payments are from existing leases and do not anticipate renewals or new leases.

<u>Year Ending</u> <u>June 30</u>	<u>Amount</u>
2007	80,411
2008	80,411
2009	73,146
2010	72,786
2011	67,011
2012-2016	62,571
2017-2021	58,081
2022-2026	72,725
2072-2031	240,496
Thereafter	<u>401,723</u>
Total	<u>\$ 1,209,361</u>

**HANCOCK COUNTY SCHOOL DISTRICT**

Notes to the 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>Description</u>	<u>Explanation</u>	<u>Amount</u>
Statement of Activities	Adjustment related to timing of revenue and expenses.	(4,895)
		<u>(4,895)</u>

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

<u>Major Funds</u>	<u>Explanation</u>	<u>Amount</u>
General fund	correct recording of prior year transaction	\$ (7,919)
Other governmental funds	correct recording of prior year transaction	3,024
	Total	<u>\$ (4,895)</u>

**(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. Except as described below, the district carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Participation in Public Entity Risk Pool.

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 119 school districts and cover risks of loss arising from injuries to the school district employees. The Mississippi Worker's Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of the MSBAWCT contributes quarterly to a fund held in trust by BancorpSouth Bank in Jackson. The funds in the trust account are used to pay any claim

## HANCOCK COUNTY SCHOOL DISTRICT

### Notes to the Financial Statements For the Year Ended June 30, 2006

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.

**REQUIRED SUPPLEMENTARY INFORMATION**

HANCOCK COUNTY SCHOOL DISTRICT  
 Budgetary Comparison Schedule  
 General Fund  
 For the Year Ended June 30, 2006

Schedule 1

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	8,206,250	9,045,816	9,045,816	839,566	-
State sources	14,900,415	15,654,695	15,654,695	754,280	-
Federal sources	121,000	116,064	116,064	(4,936)	-
<b>Total Revenues</b>	<b>23,227,665</b>	<b>24,816,575</b>	<b>24,816,575</b>	<b>1,588,910</b>	<b>-</b>
<b>Expenditures:</b>					
Instruction	14,555,572	7,231,221	7,231,221	7,324,351	-
Support services	8,387,740	5,926,669	5,926,669	2,461,071	-
Noninstructional services	64,673	47,272	47,272	17,401	-
Facilities acquisition and construction	150,000	108,387	108,387	41,613	-
Debt service:					
Principal	104,332	52,812	52,812	51,520	-
Interest	-	9,695	9,695	(9,695)	-
<b>Total Expenditures</b>	<b>23,262,317</b>	<b>13,376,058</b>	<b>13,376,058</b>	<b>9,886,261</b>	<b>-</b>
Excess (deficiency) of revenues over expenditures	(34,652)	11,440,519	11,440,519	11,475,171	-
<b>Other Financing Sources:</b>					
Insurance loss recoveries	-	1,857	1,857	1,857	-
Operating transfers in	549,489	11,460,744	11,460,744	10,911,255	-
Operating transfers out	(668,591)	(12,516,980)	(12,516,980)	(11,648,389)	-
<b>Total Other Financing Sources (Uses)</b>	<b>(319,102)</b>	<b>(1,054,379)</b>	<b>(1,054,379)</b>	<b>(735,277)</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>(353,754)</b>	<b>10,386,140</b>	<b>10,386,140</b>	<b>10,739,894</b>	<b>-</b>
<b>Fund Balances:</b>					
July 1, 2005	2,543,720	2,538,057	2,356,057	(5,663)	(182,000)
Prior period adjustment	-	(7,919)	(7,919)	(7,919)	-
July 1, 2005, as restated	2,543,720	2,530,138	2,348,138	(13,582)	(182,000)
<b>June 30, 2006</b>	<b>2,189,966</b>	<b>12,916,278</b>	<b>12,734,278</b>	<b>10,726,312</b>	<b>(182,000)</b>

HANCOCK COUNTY SCHOOL DISTRICT  
 Budgetary Comparison Schedule  
 Displaced Grant Fund  
 For the Year Ended June 30, 2006

Schedule 2

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Federal sources	-	3,269,565	3,269,565	3,269,565	-
Sixteenth Section Sources				-	-
Total Revenues	-	3,269,565	3,269,565	3,269,565	-
<b>Expenditures:</b>					
Instruction	-	3,269,565	3,269,565	(3,269,565)	-
Total Expenditures	-	3,269,565	3,269,565	(3,269,565)	-
Excess (deficiency) of revenues over expenditures	-	-	-	-	-
<b>Other Financing Sources:</b>					
Total Other Financing Sources (Uses)	-	-	-	-	-
Net change in fund balances	-	-	-	-	-
<b>Fund Balances:</b>					
July 1, 2005	-	-	-	-	-
June 30, 2006	-	-	-	-	-

HANCOCK COUNTY SCHOOL DISTRICT  
 Budgetary Comparison Schedule  
 Restart Grant Fund  
 For the Year Ended June 30, 2006

Schedule 3

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Federal sources	-	6,279,701	6,279,701	6,279,701	-
Total Revenues	-	6,279,701	6,279,701	6,279,701	-
<b>Expenditures:</b>					
Instruction	-	4,106,574	4,106,574	(4,106,574)	-
Support services	-	2,173,127	2,173,127	(2,173,127)	-
Total Expenditures	-	6,279,701	6,279,701	(6,279,701)	-
Excess (deficiency) of revenues over expenditures	-	-	-	-	-
<b>Other Financing Sources:</b>					
Total Other Financing Sources (Uses)	-	-	-	-	-
Net change in fund balances	-	-	-	-	-
<b>Fund Balances:</b>					
July 1, 2005	-	-	-	-	-
June 30, 2006	-	-	-	-	-

**HANCOCK COUNTY SCHOOL DISTRICT**  
 Budgetary Comparison Schedule  
 Fema/Mema Fund  
 For the Year Ended June 30, 2006

Schedule 4

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Federal sources	-	2,542,685	2,542,685	2,542,685	-
<b>Total Revenues</b>	<b>-</b>	<b>2,542,685</b>	<b>2,542,685</b>	<b>2,542,685</b>	<b>-</b>
<b>Expenditures:</b>					
Instruction	-	538,124	538,124	(538,124)	-
Support services	-	435,703	435,703	(435,703)	-
Facilities acquisition and construction	-	1,410,674	1,410,674	(1,410,674)	-
Debt service:					
<b>Total Expenditures</b>	<b>-</b>	<b>2,384,501</b>	<b>2,384,501</b>	<b>(2,384,501)</b>	<b>-</b>
Excess (deficiency) of revenues over expenditures	-	158,184	158,184	158,184	-
<b>Other Financing Sources:</b>					
Total Other Financing Sources (Uses)	-	-	-	-	-
Net change in fund balances	-	158,184	158,184	158,184	-
<b>Fund Balances:</b>					
July 1, 2005	-	-	-	-	-
June 30, 2006	-	158,184	158,184	158,184	-

HANCOCK COUNTY SCHOOL DISTRICT  
 Budgetary Comparison Schedule  
 Hurricane Katrina Fund  
 For the Year Ended June 30, 2006

Schedule 5

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	-	-	-	-	-
State sources	-	-	-	-	-
Federal sources	-	-	-	-	-
<b>Total Revenues</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Expenditures:</b>					
Instruction	-	169,040	169,040	(169,040)	-
Support services	-	4,623,747	4,623,747	(4,623,747)	-
Noninstructional services	-	7,621	7,621	(7,621)	-
<b>Total Expenditures</b>	<b>-</b>	<b>4,800,408</b>	<b>4,800,408</b>	<b>(4,800,408)</b>	<b>-</b>
Excess (deficiency) of revenues over expenditures	-	(4,800,408)	(4,800,408)	(4,800,408)	-
<b>Other Financing Sources:</b>					
Insurance loss recoveries	-	12,254,646	12,254,646	12,254,646	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>12,254,646</b>	<b>12,254,646</b>	<b>12,254,646</b>	<b>-</b>
Net change in fund balances	-	7,454,238	7,454,238	7,454,238	-
<b>Fund Balances:</b>					
July 1, 2005	-	-	-	-	-
June 30, 2006	-	7,454,238	7,454,238	7,454,238	-

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

## HANCOCK COUNTY SCHOOL DISTRICT

### Notes to the Required Supplemental Information For the Year Ended June 30, 2006

#### Notes to the Required Supplementary Information

##### Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(2) Budget amendments and revisions.

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

**SUPPLEMENTAL INFORMATION**

**HANCOCK COUNTY SCHOOL DISTRICT**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2006**

<u>Federal Grantor / Pass-through Grantor / Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Federal Expenditures</u>
<b><u>U.S. Department of Agriculture</u></b>		
Passed-through Mississippi Department of Education		
Non-cash assistance:		
Food donation	10.550	114,594
Child nutrition cluster:		
School breakfast program	10.553	262,128
National school lunch program	10.555	1,004,736
Summer food service program for children	10.559	24,825
Total child nutrition cluster		<u>1,291,489</u>
<b>Total U.S. Department of Agriculture</b>		<u><b>1,406,083</b></u>
<b><u>U.S. Department of Defense</u></b>		
Direct program:		
Reserve Officers' Training Corps	12.XXX	49,901
<b>Total U.S. Department of Defense</b>		<u><b>49,901</b></u>
<b><u>Federal Communications Commission</u></b>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal fund	32.XXX	65,130
<b>Total Federal Communications Commission</b>		<u><b>65,130</b></u>
<b><u>U.S. Department of Education</u></b>		
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	912,510
Vocational education - basic grants to states	84.048	59,886
Safe and drug-free schools and communities national programs	84.184	53,518
Safe and drug-free schools and communities - state grants	84.188	29,045
Education for homeless children and youth	84.196	13,478
Eisenhower professional development state grants	84.281	159,631
Improving teacher quality - state grants	84.367	207,149
State grants for innovative programs	84.298	11,525
Education technology state grants	84.318	18,747
Comprehensive school reform demonstration	84.332	9,952
Teacher quality enhancement grants	84.338	500
Hurricane education recovery	84.938	9,689,441
<b>Total</b>		<u><b>11,165,382</b></u>
Special education cluster:		
Special education - grants to states	84.027	710,124
Special education - preschool grants	84.173	29,693
<b>Total special education cluster</b>		<u><b>739,817</b></u>
<b>Total passed-through Mississippi Department of Education</b>		<u><b>11,905,199</b></u>
<b>Total U.S. Department of Education</b>		<u><b>11,905,199</b></u>
<b><u>U.S. Department of Homeland Security</u></b>		
Passed-through Mississippi Emergency Management Assistance:		
Disaster grants - public assistance (Presidentially Declared Disasters)	97.036	2,384,500
<b>Total U.S. Department of Homeland Security</b>		<u><b>2,384,500</b></u>
<b>Total for All Federal Awards</b>		<u><b>\$ 15,810,813</b></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 identification numbers to the school district.

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

Expenditures	Total	Instruction and Other Student Instructional Expenditures			
		General Administration	School Administration	Other	
Salaries and fringe benefits	\$ 20,512,450	1,116,451	1,089,462	2,292,317	
Other	18,148,738	157,811	178,153	14,323,521	
Total	38,661,188	1,274,262	1,267,615	16,615,838	
Total number of students *		4,023			
Cost per student		317	315	4,130	

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); 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

***REPORTS ON COMPLIANCE AND INTERNAL CONTROL***

**McDaniel CPA Firm**  
Certified Public Accountant / Financial Consultant

Scotty McDaniel, CPA

MEMBER

Mississippi Society  
of Certified Public  
Accountants

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

May 21, 2007

Superintendent and School Board  
Hancock County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Hancock County School District as of and for the year ended June 30, 2006, which collectively comprise the Hancock County School District's basic financial statements and have issued our report thereon dated May 21, 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 opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 did not note any 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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance or other matters that we have reported to management of the school district in a separate letter dated May 21, 2007, which is included in this report.

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

*McDaniel CPA Firm*

**McDaniel CPA Firm**  
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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

May 21, 2007

Superintendent and School Board  
Hancock County School District

**Compliance**

We have audited the compliance of the Hancock County School District with the types of compliance requirements described in *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 accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of 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, Hancock County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

**Internal Control Over Compliance**

The management of the Hancock County 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.

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

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.

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

May 21, 2007

Superintendent and School Board  
Hancock County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Hancock County School District as of and for the year ended June 30, 2006, which collectively comprise Hancock County School District's basic financial statements and have issued our report thereon dated May 21, 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.

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 fund". 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 \$ 34,323 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 disclosed the following immaterial instance of noncompliance with other state laws and regulations. Our finding and recommendation and your response are as follows:

1. Finding

We noted that three of the twenty sixteenth section lease payments we examined were not received by the district in a timely manner. Leases more than 60 days past due were not properly canceled by the district.

Recommendation

The district should comply with section 29-3-57, Miss. Code Ann. (1972), which states in part, "It shall be the

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duty of the Superintendent of Education to collect promptly all rentals due and all principal and interest due upon loans and investments of sixteenth section funds. Upon a sixty (60) day default in payment of any rentals according to the terms of such lease, the lease shall be declared terminated unless the Board of Education finds extenuating circumstances were present, and the board shall inaugurate the proper legal proceedings to terminate such lease."

School District's Response

The school district does not desire to terminate leases when they are sixty (60) days past due and many times cannot because of mortgage holders and other related issues. The district is making an effort to remedy this problem.

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

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

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**HANCOCK COUNTY SCHOOL DISTRICT**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2006**

**Section 1: Summary of Auditor's Results**

**Financial Statements:**

- |    |  |             |
|----|--|-------------|
| 1. | Type of auditor's report issued on the general purpose financial statements:             | unqualified |
| 2. | Material noncompliance relating to the general purpose 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 program:  | unqualified |
| 5.  | Internal Control over major program:  |             |
|     | 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 a major program:   |             |
|     | a. Hurricane education recovery<br>CFDA #           84.938  |             |
|     | b. Disaster grants - public assistance ( Presidentially Declared Disasters)<br>CFDA #           97.036  |             |
| 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          |

Section 2: Findings Relating to the Financial Statements

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: Findings and Questioned Costs for Federal Awards

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