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

Hazlehurst City School District
TABLE OF CONTENTS

Financial Audit Report	1
Independent Auditor's Report on the Basic Financial Statements and Supplemental Information	2
Management's Discussion and Analysis	4
Financial Statements	14
Statement of Net Assets	15
Statement of Activities	16
Balance Sheet -- Governmental Funds	17
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets	18
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds	19
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	20
Statement of Fiduciary Net Assets	21
Notes to the Financial Statements	22
Required Supplementary Information	38
Budgetary Comparison Schedules	39
Notes to the Required Supplementary Information	42
Supplemental Information	43
Schedule of Expenditures of Federal Awards	44
Schedule of Instructional, Administrative, and Other Expenditures- Governmental Funds	45
Reports on Compliance and Internal Control	46
Independent Auditor's Report on Internal Control over Financial Reporting And On Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	47
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	49

Independent Auditor's Report on Compliance with State Laws and Regulations	51
Schedule of Findings and Questioned Costs	55
Auditee's Corrective Action Plan and Summary of Prior Audit Findings	59

HAZLEHURST CITY SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

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

Superintendent and School Board
Hazlehurst City School District

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Hazlehurst City School District as of and for the year ended June 30, 2006, which collectively comprise the Hazlehurst City School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Hazlehurst City 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 opinion.

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 Hazlehurst City 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 August 23, 2007, on our consideration of the Hazlehurst City School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 4 through 13 and the Budgetary Comparison Schedule and corresponding notes on pages 39 through 42 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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



Patrick E. Lowery and Associates
Certified Public Accountants

August 23, 2007

HAZLEHURST CITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Hazlehurst City School District

Office of the Superintendent

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

FINANCIAL HIGHLIGHTS

- Total net assets, including the effect of prior period adjustments, increased \$398,302, which represents a 19% increase from fiscal year 2005. This increase in net assets is primarily due to the following: 1) capital outlays during the fiscal year were not reported as expenses in the Statement of Activities but were capitalized on the Statement of Net Assets, and 2) repayment of debt principal was not reported as an expense in the Statement of Activities but as a reduction of long-term liabilities on the Statement of Net Assets.
- General revenues accounted for \$9,298,422 in revenue, or 75% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$3,089,756, or 25% of total revenues.
- The District had \$11,987,776 in expenses; only \$3,089,756 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$9,298,422 were adequate to provide for these programs.
- Among major funds, the General Fund had \$8,955,732 in revenues and \$8,975,659 in expenditures. After net other financing sources of \$51,051, the net change in fund balance for the General Fund was an increase of \$31,124 from the previous fiscal year.
- Capital assets, net of accumulated depreciation, increased by \$121,500.
- Long-term debt decreased by \$220,018.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

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

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

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be 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

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

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

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

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

Notes to the financial statements. The notes provide additional information that is essential to have a full understanding of the data provided in the government-wide and fund financial statements.

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major special revenue fund.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$2,454,844 as of June 30, 2006.

The district's net assets are comprised of 1) net assets invested in capital assets, net of related debt, 2) restricted net assets and 3) unrestricted net assets. \$1,840,998 of the District's net assets

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

reflects its investment in capital assets (e.g., land, buildings, building improvements, mobile equipment and furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending. \$643,497 of the District's net assets reflects its restricted net assets. A portion of the restricted net assets is expendable for school based activities, forestry improvements and unemployment benefits. The remaining portion of the restricted net assets is nonexpendable for 16th section investment purposes and scholarship purposes. The unrestricted portion of the District's net assets is a negative amount of \$29,651. This negative amount is a result of the excess of non-capital related debt outstanding and accrued interest payable at year end over the fund balance in the General Fund.

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

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

	Net Assets		Percentage
	June 30, 2006	June 30, 2005	Change
Current assets	\$ 1,533,899	\$ 1,384,526	10.8 %
Other assets	107,896	108,060	(0.2) %
Capital assets, net	<u>2,946,298</u>	<u>2,824,798</u>	4.3 %
Total assets	<u>4,588,093</u>	<u>4,317,384</u>	6.3 %
Current liabilities	904,741	812,316	11.4 %
Long-term debt outstanding	<u>1,228,508</u>	<u>1,448,526</u>	(15.2) %
Total liabilities	<u>2,133,249</u>	<u>2,260,842</u>	(5.6) %
Net assets:			
Invested in capital assets, net of related debt	1,840,998	1,524,798	20.7 %
Restricted	643,497	619,162	3.9 %
Unrestricted	<u>(29,651)</u>	<u>(87,418)</u>	66.1 %
Total net assets	<u>\$ 2,454,844</u>	<u>2,056,542</u>	19.4 %

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

- Current assets increased from the previous fiscal year due primarily to an increase in amounts due from other governments.
- Long-term debt outstanding decreased from the previous fiscal year due primarily to principal payments made during the fiscal year.

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

- Net assets invested in capital assets, net of related debt, increased from the previous fiscal year due primarily to the purchase of capital assets during the fiscal year and the reduction of long-term debt related to those capital assets.
- Unrestricted net assets increased from the previous fiscal year due primarily to the increase in fund balance of the General Fund.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2006 were \$12,388,178. The total cost of all programs and services was \$11,987,776. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2006 and comparative data for the fiscal year ended June 30, 2005.

	<u>Change in Net Assets</u>		<u>Percentage Change</u>
	<u>June 30, 2006</u>	<u>June 30, 2005</u>	
Revenues:			
Program revenues:			
Charges for services	\$ 372,483	\$ 330,514	12.7 %
Operating grants and contributions	2,717,273	2,422,791	12.2 %
General revenues:			
Property taxes	2,266,444	2,282,176	(0.7) %
Grants and contributions not restricted	6,652,410	6,083,891	9.3 %
Other	<u>379,568</u>	<u>406,206</u>	(6.6) %
Total revenues	<u>12,388,178</u>	<u>11,525,578</u>	7.5 %
Expenses:			
Instruction	7,041,473	6,757,564	4.2 %
Support services	3,797,652	3,568,919	6.4 %
Non-instructional	1,044,802	1,033,603	1.1 %
Sixteenth section	48,474	244,802	(80.2) %
Interest and other expenses on long-term liabilities	<u>55,375</u>	<u>113,397</u>	(51.2) %
Total expenses	<u>11,987,776</u>	<u>11,718,285</u>	2.3 %
Increase (Decrease) in net assets	400,402	(192,707)	
Net Assets, July 1	2,056,542	2,293,417	(10.3) %
Prior Period Adjustments	<u>(2,100)</u>	<u>(44,168)</u>	
Net Assets, Restated, July 1	<u>2,054,442</u>	<u>2,249,249</u>	(8.7) %
Net Assets, June 30	<u>\$ 2,454,844</u>	<u>\$ 2,056,542</u>	19.4 %

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

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

- Program revenues increased from the previous fiscal year due primarily to an increase in operating grants and contributions related to the Displaced Student Grant received during the fiscal year resulting from Hurricane Katrina.
- General revenues increased from the previous fiscal year due primarily to an increase in unrestricted state grants and contributions.

Governmental activities. The following table presents, for the fiscal year ended June 30, 2006 and comparative data for the fiscal year ended June 30, 2005, the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section and interest and other expenses on long-term debt. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and District's taxpayers by each of these functions.

	2006		2005	
	Total Expenses	Net (Expense) Revenue	Total Expenses	Net (Expense) Revenue
Instruction	\$ 7,041,473	\$ (5,502,189)	\$ 6,757,564	\$ (5,548,600)
Support services	3,797,652	(3,277,551)	3,568,919	(3,062,136)
Non-instructional	1,044,802	(48,140)	1,033,603	(26,110)
Sixteenth section	48,474	(14,765)	244,802	(214,737)
Interest and other expenses on long-term liabilities	55,375	(55,375)	113,397	(113,397)
Total expenses	\$ 11,987,776	\$ (8,898,020)	\$ 11,718,285	\$ (8,964,980)

- The net cost of governmental activities for fiscal year 2006 in the amount of \$8,898,020 was financed by general revenue, which is made up of primarily property taxes of \$2,266,444 and state revenue of \$6,613,286.
- Investment earnings accounted for \$9,367 of funding.
- Sixteenth section sources in the amount of \$276,043 were generated during the fiscal year primarily from the sale of timber and sixteenth section leases.

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.

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed fiscal year June 30, 2006, its governmental funds reported a combined fund balance of \$760,989. The net change in fund balance for the fiscal year was an increase of \$66,250. \$510,212, or 67%, of the fund balance is reported by fund type in the unreserved, undesignated section of the Governmental Funds Balance Sheet. The portion of the fund balance reported in the General Fund is available for spending at the District's discretion. The portion of the fund balance reported in the Special Revenue Funds will be used for school based activities. The remaining fund balance of \$250,777, or 33%, is reserved or designated to indicate that it is not available for spending because it has already been committed. This portion of the fund balance is reserved for advances, inventory, unemployment benefits, forestry improvements, debt service purposes and permanent fund purposes.

The General Fund is the principal operating fund of the District. The net change in fund balance for the General Fund for the fiscal year was an increase of \$31,124. The net change in fund balance for the 16th Section Interest Fund for the fiscal year was an increase of \$20,138. The net change in fund balance for the Other Governmental Funds for the fiscal year was an increase of \$14,988.

BUDGETARY HIGHLIGHTS

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

- Budgeted amounts for instruction and support services expenditures in the General Fund were increased during the fiscal year. The amounts originally budgeted were understated.
- Budgeted amounts for proceeds of loans and debt service principal expenditures in the General Fund were increased during the fiscal year to reflect the receipt and repayment of a loan for cash flow purposes.
- Budgeted amounts for transfers into the General Fund were increased during the fiscal year. The amount originally budgeted was understated.
- Budgeted revisions were made to reflect federal sources in the Displaced Student Grant Fund. 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, before depreciation, were \$6,552,251, including land, buildings, building improvements, mobile equipment and furniture

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

and equipment. This amount represents a gross increase of \$205,528 from the previous year primarily resulting from the purchase of five new school buses. Total depreciation expense for the year was \$148,977. Total accumulated depreciation as of June 30, 2006 was \$3,605,953, resulting in total net capital assets of \$2,946,298.

	<u>Capital Assets, Net of Depreciation</u>		Percentage
	<u>2006</u>	<u>2005</u>	<u>Change</u>
Land	\$ 25,000	\$ 25,000	0.0 %
Buildings	2,367,637	2,439,223	(2.9) %
Building improvements	73,525	0	
Improvements other than buildings	0	77,395	(100.0) %
Mobile equipment	465,073	255,252	82.2 %
Furniture and equipment	<u>15,063</u>	<u>27,928</u>	(46.1) %
Total	<u>\$ 2,946,298</u>	<u>\$ 2,824,798</u>	4.3 %

Debt Administration. At June 30, 2006, the District had \$1,228,508 in general and limited obligation bonds and other long-term debt outstanding, of which \$508,410 is due within one year. During the fiscal year, the District received proceeds of loans totaling \$530,318 for the purchase of new school buses and cash flow purposes. The District also made principal payments on long-term debt totaling \$750,009.

	<u>Outstanding Debt</u>		Percentage
	<u>2006</u>	<u>2005</u>	<u>Change</u>
General obligation bonds payable	\$ 360,000	\$ 540,000	(33.3) %
Limited obligation bonds payable	460,000	675,000	(31.9) %
Three mill notes payable	18,000	43,000	(58.1) %
Transportation equipment loans payable	267,300	0	
Obligations under capital leases	0	50,517	(100.0) %
Other loans payable	25,526	42,000	(39.2) %
Compensated absences payable	<u>97,682</u>	<u>98,009</u>	(0.3) %
Total	<u>\$ 1,228,508</u>	<u>\$ 1,448,526</u>	(15.2) %

CURRENT ISSUES

The fund balance of the General Fund increased from the previous fiscal year resulting in a fund balance of \$117,012. However, management of the School District has expressed some concern for the financial future of the District. Some of the most critical concerns are the increase in the employers match to the Public Employee's Retirement System and the School District having to assume responsibility for a portion of the previously fully funded employee health insurance.

The millage rate for the District has not increased or decreased significantly over the past several years.

Latest enrollment figures indicate that student enrollment in the District has not increased or decreased significantly from the previous fiscal year.

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Hazlehurst City School District, 119 Robert McDaniel Dr., Hazlehurst, MS 39083.

HAZLEHURST CITY SCHOOL DISTRICT

FINANCIAL STATEMENTS

Hazlehurst City School District
Statement of Net Assets
June 30, 2006

Exhibit A

	<u>Primary Government</u>
	<u>Governmental</u>
	<u>Activities</u>
Assets	
Cash and cash equivalents (Note 3)	\$ 496,606
Investments	427,775
Due from other governments	588,776
Inventories	20,742
Restricted assets	107,896
Capital assets, not being depreciated: (Note 5)	
Land	25,000
Capital assets, net of accumulated depreciation (Note 5)	
Buildings	2,367,637
Building Improvements	73,525
Mobile equipment	465,073
Furniture and equipment	15,063
	<u>4,588,093</u>
Total Assets	\$ <u>4,588,093</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 740,040
Deferred revenue	140,766
Interest payable on long-term liabilities	23,935
Long-term liabilities, due within one year (Note 6)	
Capital related liabilities	478,000
Non-capital related liabilities	30,410
Long-term liabilities, due beyond one year (Note 6)	
Capital related liabilities	627,300
Non-capital related liabilities	92,798
	<u>2,133,249</u>
Total Liabilities	\$ <u>2,133,249</u>
Net Assets	
Investment in capital assets, net of related debt	\$ 1,840,998
Restricted net assets:	
Expendable:	
School - based activities	413,942
Forestry improvements	53,545
Unemployment benefits	55,160
Non-expendable:	
Sixteenth section	90,740
Other	30,110
Unrestricted	<u>(29,651)</u>
	<u>2,454,844</u>
Total Net Assets	\$ <u>2,454,844</u>

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

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

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Primary Government
					Governmental Activities
Primary Government:					
Governmental Activities:					
Instruction	\$ 7,041,473	184,094	1,355,190	-	(5,502,189)
Support services	3,797,652	-	520,101	-	(3,277,551)
Non-instructional	1,044,802	154,680	841,982	-	(48,140)
Sixteenth section	48,474	33,709	-	-	(14,765)
Interest on long-term liabilities	55,375	-	-	-	(55,375)
Total governmental activities	\$ 11,987,776	372,483	2,717,273	-	(8,898,020)

General Revenues:

Taxes:

General purpose levies	1,994,768
Debt purpose levies	271,676

Unrestricted grants and contributions:

State	6,613,286
Federal	39,124
Unrestricted investment earnings	9,367
Sixteenth section sources	276,043
Other	94,158
Total General Revenues	9,298,422

Change in Net Assets 400,402

Net Assets - Beginning 2,056,542
Prior Period Adjustments (2,100)

Net Assets - Ending \$ 2,454,844

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

Hazlehurst City School District
 Balance Sheet - Governmental Funds
 June 30, 2006

Exhibit C

	Major Funds				
	General	Displaced	16th Section	Other	Total
	Fund	Student	Interest	Governmental	Governmental
	Fund	Fund	Fund	Funds	Funds
ASSETS					
Cash and cash equivalents (Note 3)	\$ (130,112)	-	174,168	560,446	604,502
Investments (Note 3)	427,775	-	-	-	427,775
Due from other governments	145,654	169,477	-	28,969	344,100
Due from other funds (Note 4)	393,102	64,658	206,868	41,820	706,448
Advance to other funds (Note 4)	-	-	-	12,954	12,954
Inventories	-	-	-	20,742	20,742
Total Assets	\$ 836,419	234,135	381,036	664,931	2,116,521
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	\$ 540,394	64,658	18,771	116,217	740,040
Due to other funds (Note 4)	166,059	169,477	-	126,236	461,772
Advances from other funds (Note 4)	12,954	-	-	-	12,954
Deferred revenue	-	-	-	140,766	140,766
Total Liabilities	719,407	234,135	18,771	383,219	1,355,532
Fund Balances:					
Reserved for:					
Advances	-	-	-	12,954	12,954
Inventory	-	-	-	20,742	20,742
Unemployment benefits	-	-	-	55,160	55,160
Forestry improvement	-	-	-	53,545	53,545
Debt service purposes	-	-	-	480	480
Permanent fund purposes	-	-	-	107,896	107,896
Unreserved:					
Undesignated, reported in:					
General fund	117,012	-	-	-	117,012
Special Revenue funds	-	-	362,265	30,935	393,200
Total Fund Balances	117,012	-	362,265	281,712	760,989
Total Liabilities and Fund Balances	\$ 836,419	234,135	381,036	664,931	2,116,521

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

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

Exhibit C-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 760,989
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$3,602,953. (Note 5)	2,946,298
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds as follows.	
Long-term liabilities (Note 6)	(1,228,508)
Accrued interest on debt	<u>(23,935)</u>
Total Net Assets - Governmental Activities	\$ <u>2,454,844</u>

Hazlehurst City 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	Total
	General Fund	Displaced Student Fund	16th Section Interest Fund	Governmental Funds	Governmental Funds
Revenues:					
Local sources	\$ 2,247,141	-	-	425,066	2,672,207
State sources	6,669,468	-	-	198,540	6,868,008
Federal sources	39,123	279,194	-	2,183,358	2,501,675
Sixteenth section sources	-	-	276,093	35,278	311,371
Total Revenues	8,955,732	279,194	276,093	2,842,242	12,353,261
Expenditures:					
Instruction	5,204,325	343,852	-	1,416,708	6,964,885
Support services	3,239,762	-	-	767,454	4,007,216
Noninstructional services	-	-	-	1,023,340	1,023,340
Sixteenth section	-	-	5,955	42,519	48,474
Debt service:					
Principal	503,009	-	-	247,000	750,009
Interest	28,563	-	-	29,759	58,322
Total Expenditures	8,975,659	343,852	5,955	3,526,780	12,852,246
Excess (Deficiency) of Revenues					
Over Expenditures	(19,927)	(64,658)	270,138	(684,538)	(498,985)
Other Financing Sources (Uses):					
Proceeds of loans	263,018	-	-	267,300	530,318
Insurance loss recoveries	34,917	-	-	-	34,917
Operating transfers in	1,002,276	64,658	-	449,873	1,516,807
Operating transfers out	(1,249,160)	-	(250,000)	(17,647)	(1,516,807)
Total Other Financing Sources (Uses)	51,051	64,658	(250,000)	699,526	565,235
Net Change in Fund Balances	31,124	-	20,138	14,988	66,250
Fund Balances:					
July 1, 2005, as previously reported	87,988	-	342,127	277,037	707,152
Prior period adjustments	(2,100)	-	-	-	(2,100)
July 1, 2005, as restated	85,888	-	342,127	277,037	705,052
Increase (Decrease) in reserve for inventory	-	-	-	(10,313)	(10,313)
June 30, 2006	\$ 117,012	-	362,265	281,712	760,989

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

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

Exhibit D-1

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ 66,250
Amounts reported for governmental activities in the statement of activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate these expenditures over the life of the assets. Capital asset purchases amounted to \$274,306 and the depreciation expense amounted to \$148,977. (Note 5)	125,329
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 activity. (Note 6)	750,009
3. The issuance of long-term debt provides current financial resources to governmental funds, but the issuance increases long-term liabilities in the Statement of Net Assets.	(530,318)
4. In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in governmental funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by the following item:	
Losses on sales of capital assets	(3,829)
5. Expenses in the statement of activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds:	
Compensated Absences	327
6. Governmental funds recognize interest on long-term debt when it becomes due, however, the statement of activities recognizes interest as it accrues regardless of when it becomes due.	2,947
7. An increase (+)/decrease(-) in the reserve for inventory is reported as a direct increase/decrease to the fund balance in the governmental funds but is a decrease/increase in noninstructional service expenses in the Statement of Activities.	<u>(10,313)</u>
Change in Net Assets of Governmental Activities	\$ <u>400,402</u>

Hazlehurst City School District
Statement of Fiduciary Net Assets
June 30, 2006

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents (Note 3)	\$ <u>244,676</u>
Total Assets	\$ <u><u>244,676</u></u>
Liabilities	
Due to other funds (Note 4)	<u>244,676</u>
Total Liabilities	\$ <u><u>244,676</u></u>

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

HAZLEHURST CITY SCHOOL DISTRICT

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

(1) Summary of Significant Accounting Policies.

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

A. Financial Reporting Entity.

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

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

HAZLEHURST CITY SCHOOL DISTRICT

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

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 in another fund.

Displaced Student Fund - This fund accounts for the Hurricane Education Recovery grant funds received as a result of the district enrolling new students who were displaced by Hurricane Katrina.

16th Section Interest Fund - This fund accounts for the transactions resulting from the generation of revenue from the 16th section land within that individual township that is legally required to be placed in a 16th section interest fund.

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

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

FIDUCIARY FUNDS

HAZLEHURST CITY SCHOOL DISTRICT

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

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

D. Account Classifications.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing and Financial Reporting* as issued in 2005 by the Government Finance Officers Association and are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 1990* issued by the U.S. Department of Education.

E. Encumbrances.

An encumbrance system is not maintained to account for commitments resulting from approved purchase orders, work orders and contracts.

F. Cash and Cash Equivalents.

The school district deposits excess funds in the financial institutions selected by the school board. State statutes specify how these depositories are to be selected.

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

G. Investments.

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

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

Investments are reported at fair value.

H. Inventories.

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.

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.

HAZLEHURST CITY SCHOOL DISTRICT

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

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

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

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

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

J. Long-term liabilities.

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

K. Interfund Transactions and Balances.

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

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

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

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

HAZLEHURST CITY SCHOOL DISTRICT

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

L. Equity Classifications.

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

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

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

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

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

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

M. Property Taxes.

HAZLEHURST CITY SCHOOL DISTRICT

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

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

N. Mississippi Adequate Education Program Revenues.

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

O. Compensated Absences.

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

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

(2) Changes in Accounting Standards

As required, the School District has implemented Government Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* for the current fiscal year. This Statement requires governments to evaluate major events affecting 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 Investments.

The district follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Restrictions on deposits and investments are imposed by statutes as follows:

Deposits. The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the school districts' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

Investments. Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to invest surplus funds in the types of investments authorized by Section 27-105-33 (d) and (e), Miss. Code Ann. (1972). This section permits the following types of investment: (a) certificates of deposits and interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States

HAZLEHURST CITY SCHOOL DISTRICT

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

Government instrumentality or United States Government sponsored enterprise obligations, the principal and interest of which are fully guaranteed by the government or enumerated agency of the United States; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or interest in, and open-end or closed-end any management type investment company or investment trust approved by the State Treasurer and the Executive director of the Department of Finance and Administration. Investment income on bond funds (Capital Projects), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Amounts less than \$100 can be credited to the General Fund.

Cash and Cash Equivalents.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$604,502 and \$244,676, respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and cash equivalents \$496,606 and Restricted Assets \$107,896. The Restricted Assets represents the cash balance of the 16th section Principal funds (Permanent Funds) which is legally restricted and scholarship funds, which may not be used for purposes that support the district's programs. As of June 30, 2006, \$0 of the district's bank balance of \$985,570 was exposed to custodial credit risk.

Custodial Credit Risk-Deposits. Custodial risk is the risk that in the event of a depository failure, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. By signed agreement, the Mississippi State Treasurer's office is acting on behalf of the school district.

Investments.

As of June 30, 2006, the district had the following investments. All investments are in an internal investment pool.

<u>Investment Type</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Rating</u>
Certificates of deposit	1 to 5	<u>427,775</u>	
Subtotal		<u>427,775</u>	
Total Investments		<u>\$ 427,775</u>	

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

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

HAZLEHURST CITY SCHOOL DISTRICT

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

(4) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

	Due From	Due To
Governmental funds:		
General fund	\$ 393,102	166,059
Displaced student fund	64,658	169,477
16 th Section Interest fund	206,868	
Other Governmental Funds	41,820	126,236
Fiduciary Funds		244,676
Total	\$ 706,448	706,448

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

B. Advances To/From Other Funds:

	Advances To	Advances From
Governmental funds:		
General fund	\$	12,954
Other Governmental funds	12,954	
Total	\$ 12,954	12,954

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

Sixteenth section principal loans payable.

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

Year Ending June 30	Principal	Interest	Total
2007	6,224	914	7,138
2008	3,299	269	3,568
2009	3,431	137	3,568
Total	\$ 12,954	1,320	14,274

HAZLEHURST CITY SCHOOL DISTRICT

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

C. Transfers In/Out.

	<u>Transfer In</u>	<u>Transfers Out</u>
Governmental funds:		
General fund	\$ 1,002,276	1,184,502
16 th Section Interest fund		250,000
Other Governmental Funds	449,873	17,647
Total	<u>\$ 1,452,149</u>	<u>1,452,149</u>

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

HAZLEHURST CITY SCHOOL DISTRICT

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

(5) Capital Assets.

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

	Balance 7-1-2005	Additions	Retirement s	Completed Construction	Adjustments	Balance 6-30-2006
<u>Non-depreciable capital assets:</u>						
Land	\$ 25,000					25,000
Total non-depreciable capital assets	<u>25,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>25,000</u>
<u>Depreciable capital assets:</u>						
Buildings	4,621,662					4,621,662
Improvements other Than buildings	96,744				(96,744)	0
Building improvements					96,744	96,744
Mobile equipment	1,208,649	274,306	34,900			1,448,055
Furniture and equipment	394,668		33,878			360,790
Total depreciable capital Assets	<u>6,321,723</u>	<u>274,306</u>	<u>68,778</u>	<u>0</u>	<u>0</u>	<u>6,527,251</u>
<u>Less accumulated depreciation for:</u>						
Buildings	(2,182,439)	(71,586)				(2,254,025)
Improvements other Than buildings	(19,349)				19,349	0
Building improvements	0	(3,870)			(19,349)	(23,219)
Mobile equipment	(953,397)	(60,995)	31,410			(982,982)
Furniture and equipment	(366,740)	(12,526)	33,539			(345,727)
Total accumulated depreciation	<u>(3,521,925)</u>	<u>(148,977)</u>	<u>64,949</u>	<u>0</u>	<u>0</u>	<u>(3,605,953)</u>
Total depreciable capital assets, net	<u>2,799,798</u>	<u>125,329</u>	<u>3,829</u>	<u>0</u>	<u>0</u>	<u>2,921,298</u>
Governmental activities capital assets, net	<u>\$ 2,824,798</u>	<u>125,329</u>	<u>3,829</u>	<u>0</u>	<u>0</u>	<u>2,946,298</u>

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 76,800
Support services	60,995
Non-instructional	<u>11,182</u>
Total depreciation expense	<u>\$ 148,977</u>

HAZLEHURST CITY SCHOOL DISTRICT

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

(6) Long-term liabilities.

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

	Balance 7-1-2005	Additions	Reductions	Adjustments	Balance 6-30-2006	Amounts due within one year
A. General obligation bonds payable	540,000		180,000		360,000	190,000
B. Limited obligation bonds Payable	675,000		215,000		460,000	225,000
C. Three mill notes payable	43,000		25,000		18,000	18,000
D. Transportation equipment loans payable	0	267,300			267,300	45,000
E. Obligations under capital leases	50,517			(50,517)	0	0
F. Other loans payable	42,000	263,018	330,009	50,517	25,526	25,526
G. Compensated absences payable	98,009		327		97,682	4,884
Total	\$ 1,448,526	530,318	750,336	0	1,228,508	508,410

A. General obligation bonds payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General obligation refunding Bonds, Series 1992	Varies	08-01-92	08/01/07	\$ 1,770,000	360,000
Total				\$ 1,770,000	360,000

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

Year Ending June 30	Principal	Interest	Total
2007	190,000	15,010	205,010
2008	170,000	4,845	174,845
Total	\$ 360,000	19,855	379,855

HAZLEHURST CITY SCHOOL DISTRICT

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

The amount of bonded indebtedness that can be incurred by the school district is limited by state statute. Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in state statutes, have been met. As of June 30, 2006, the amount of outstanding bonded indebtedness was equal to 2% of property assessments as of October 1, 2004. This debt will be retired from the 1993 Refunded Bond Retirement Fund (4032).

B. Limited obligation bonds payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital Improvement bonds	4.6%	04/01/1998	08/01/2007	\$ 1,465,000	460,000
Total				\$ 1,465,000	460,000

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

Year Ending June 30	Principal	Interest	Total
2007	225,000	15,985	240,985
2008	235,000	5,405	240,405
Total	\$ 460,000	21,390	481,390

The state aid capital improvement bonds are secured by an irrevocable pledge of certain revenues the district receives from the state of Mississippi pursuant to the Mississippi Accountability and Adequate Education Program Act, Sections 37-151-1 through 37-151-7, Miss. Code Ann. (1972). The state aid capital improvement bonds are not included in the computation of the debt limit percentage. This debt will be retired from the MAEP Debt Service Fund (4024).

C. Three mill notes payable.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Three mill-ten year notes	5.15%	06-01-97	06-01-07	\$ 445,000	18,000
Total				\$ 445,000	18,000

HAZLEHURST CITY SCHOOL DISTRICT

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

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

Year Ending June 30	Principal	Interest	Total
2007	18,000	927	18,927
Total	\$ 18,000	927	18,927

This debt will be retired from the Three Mill Note Fund (4023).

D. Transportation equipment loans payable.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Transportation Equipment Notes Series 2005	3.87%	11/15/05	11/15/11	\$ 267,300	267,300
Total				\$ 267,300	267,300

This debt was retired from the Education Enhancement Building & Buses Fund (2410).

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

Year Ending June 30	Principal	Interest	Total
2007	45,000	10,344	55,344
2008	47,000	8,603	55,603
2009	49,000	6,784	55,784
2010	52,000	4,888	56,888
2011	54,000	2,875	56,875
2012	20,300	786	21,086
Total	\$ 267,300	34,280	301,580

E. Obligations under capital leases.

The school district has entered into a lease agreement that qualifies as a capital lease for accounting purposes. Leased property under this lease is composed of computer hardware and software. The lease includes a \$1 purchase option at the end of the lease term.

The school district uses the straight-line method of amortization for the lease payments which is not in accordance with accounting principles generally accepted in the United States of America. However, the difference between the effective interest method and the straight-line method is not considered material.

HAZLEHURST CITY SCHOOL DISTRICT

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

F. Other loans payable.

The school district has issued debt instruments granted under the authority of Section 37-59-101, Miss. Code Ann. (1972).

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Loans payable	5.39%	02-15-00	02-15-06	\$ 217,000	0
Loans payable				263,018	0
Loans payable				<u>50,517</u>	<u>25,526</u>
Total				<u>\$ 530,535</u>	<u>25,526</u>

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

Year Ending June 30	Principal	Interest	Total
2007	<u>25,526</u>	<u>545</u>	<u>26,071</u>
Total	<u>\$ 25,526</u>	<u>545</u>	<u>26,071</u>

This debt will be retired from the General Fund (1120).

G. Compensated absences payable.

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

(7) Defined Benefit Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The rate for fiscal year ending June 30, 2006 is 10.75% of the 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 \$720,212, \$688,976, and \$618,535, respectively, which equaled the required contributions for each year.

HAZLEHURST CITY SCHOOL DISTRICT

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

(8) Other Commitments.

Operating leases:

The school district has an operating lease for eight Canon IR copiers and three finisher/staplers.

Lease expenditures for the year ended June 30, 2006, amounted to \$59,775. Future lease payments for this lease are as follows:

Year Ending June 30	<u>Amount</u>
2006	33,264
2007	<u>2,772</u>
Total	\$ <u><u>36,036</u></u>

(9) Sixteenth Section Lands.

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

Year Ending June 30	<u>Amount</u>
2007	\$ 66,024
2008	59,846
2009	47,762
2010	42,914
2011	42,914
2012 - 2016	214,572
2017 - 2021	204,472
2022 - 2026	164,447
2027-2031	164,467
2032-2036	150,737
Thereafter	<u>105,681</u>
Total	\$ <u><u>1,263,836</u></u>

HAZLEHURST CITY SCHOOL DISTRICT

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

(10) Prior Period Adjustments/Exhibits.

A summary of significant fund equity adjustments is as follows:

Exhibit B - Statement of Activities

<u>Explanation(s)</u>	<u>Amount</u>
1. Reclassify fund equity – an adjustment to correct a prior year error in recording an asset or liability:	
a) General Fund	(2,100)
Total	\$ <u>(2,100)</u>

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

<u>Explanation(s)</u>	<u>Amount</u>
1. Reclassify fund equity – an adjustment to correct a prior year error in recording an asset or liability:	
a) General Fund	(2,100)
Total	\$ <u>(2,100)</u>

(11) Risk Management.

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

Participation in Public Entity Risk Pool.

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 119 school districts and covers risks of loss arising from injuries to the school district's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Bancorp South. The funds in the trust account are used to pay any claim up to \$500,000. For a claim exceeding \$500,000, MSBAWCT has insurance which will pay the excess up to \$25,000,000. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

HAZLEHURST CITY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

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

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 2,292,789	2,323,434	2,247,141	30,645	(76,293)
State sources	6,631,894	6,585,274	6,669,468	(46,620)	84,194
Federal sources	41,520	35,410	39,123	(6,110)	3,713
Total Revenues	<u>8,966,203</u>	<u>8,944,118</u>	<u>8,955,732</u>	<u>(22,085)</u>	<u>11,614</u>
Expenditures:					
Instruction	5,153,294	5,574,353	5,204,325	(421,059)	370,028
Support services	2,829,195	3,142,123	3,239,762	(312,928)	(97,639)
Debt service:					
Principal	218,050	481,095	503,009	(263,045)	(21,914)
Interest	-	1,539	28,563	(1,539)	(27,024)
Total Expenditures	<u>8,200,539</u>	<u>9,199,110</u>	<u>8,975,659</u>	<u>(998,571)</u>	<u>223,451</u>
Excess (Deficiency) of Revenues Over Expenditures					
	<u>765,664</u>	<u>(254,992)</u>	<u>(19,927)</u>	<u>(1,020,656)</u>	<u>235,065</u>
Other Financing Sources (Uses):					
Proceeds of loans	-	263,018	263,018	263,018	-
Inception of capital leases	-	34,917	34,917	34,917	-
Operating transfers in	776,466	1,065,710	1,002,276	289,244	(63,434)
Operating transfers out	<u>(1,065,623)</u>	<u>(1,065,623)</u>	<u>(1,249,160)</u>	-	<u>(183,537)</u>
Total Other Financing Sources (Uses)	<u>(289,157)</u>	<u>298,022</u>	<u>51,051</u>	<u>587,179</u>	<u>(246,971)</u>
Net Change in Fund Balances	<u>476,507</u>	<u>43,030</u>	<u>31,124</u>	<u>(433,477)</u>	<u>(11,906)</u>
Fund Balances:					
July 1, 2005, as previously reported			87,988		
Prior period adj & reclassifications			<u>(2,100)</u>		
July 1, 2005, as restated			<u>85,888</u>		
June 30, 2006			\$ <u>117,012</u>		

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

Hazlehurst City School District
 Budgetary Comparison Schedule
 Displaced Students Fund
 For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ -	\$ 58,125	\$ 279,194	\$ 58,125	\$ 221,069
Total Revenues	-	58,125	279,194	58,125	221,069
Expenditures:					
Instruction	-	-	343,852	-	(343,852)
Total Expenditures	-	-	343,852	-	(343,852)
Excess (Deficiency) of Revenues Over Expenditures					
	-	58,125	(64,658)	58,125	(122,783)
Other Financing Sources (Uses):					
Operating transfers in	-	-	64,658	-	64,658
Total Other Financing Sources (Uses)	-	-	64,658	-	64,658
Net Change in Fund Balances					
	-	58,125	-	58,125	(58,125)
Fund Balances:					
July 1, 2005					
June 30, 2006			\$ -		

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

Hazlehurst City School District
 Budgetary Comparison Schedule
 16th Section Interest Fund
 For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
16th section sources	230,000	261,730	276,093	31,730	14,363
Total Revenues	230,000	261,730	276,093	31,730	14,363
Expenditures:					
Sixteenth section	-	-	5,955	-	(5,955)
Total Expenditures	-	-	5,955	-	(5,955)
Excess (Deficiency) of Revenues Over Expenditures	230,000	261,730	270,138	31,730	8,408
Other Financing Sources (Uses):					
Operating transfers out	(259,380)	(259,380)	(250,000)	-	9,380
Total Other Financing Sources (Uses)	(259,380)	(259,380)	(250,000)	-	9,380
Net Change in Fund Balances	(29,380)	2,350	20,138	31,730	17,788
Fund Balances:					
July 1, 2005, as previously reported			342,127		
June 30, 2006			\$ 362,265		

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

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 by 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.

HAZLEHURST CITY SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

HAZLEHURST CITY SCHOOL DISTRICT
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2006

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	\$ 54,219
Child nutrition cluster:		
School breakfast program	10.553	244,336
National school lunch program	10.555	576,424
Summer food service program for children	10.559	15,215
Total child nutrition cluster		835,975
Total passed-through Mississippi Department of Education		890,194
Total U.S. Department of Agriculture		890,194
<u>U.S. Department of Defense</u>		
Direct program:		
Reserve Officers' Training Corps	12.XXX	47,647
Total U.S. Department of Defense		47,647
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	669,112
Vocational education - basic grants to states	84.048	21,760
Safe and drug-free schools and communities - state grants	84.186	13,546
State grants for innovative programs	84.298	8,129
Improving teacher quality state grants	84.367	110,654
Hurricane education recovery	84.398	343,852
Education Technology State Grants	84.318	18,247
Total		1,185,300
Special education cluster:		
Special education - grants to states	84.027	402,078
Special education - preschool grants	84.173	1,990
Total		404,068
Total passed-through Mississippi Department of Education		1,589,368
Total U.S. Department of Education		1,589,368
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company		
The schools and libraries program of the universal service fund	32.XXX	39,123
Total Federal Communications Commission		39,123
Total for All Federal Awards		\$ 2,566,332

NOTES TO SCHEDULE

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

Hazlehurst City 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	\$ 9,117,936	6,934,336	523,180	414,497	1,245,923
Other	3,734,310	763,900	331,162	10,077	2,629,171
Total	\$ 12,852,246	7,698,236	854,342	424,574	3,875,094

Total number of students * 1,737

Cost per student \$ 7,399 4,432 492 244 2,231

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

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

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

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

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

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

*Month 9 ADA, 2005-06 School Year

HAZLEHURST CITY SCHOOL DISTRICT

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

PATRICK E. LOWERY AND ASSOCIATES

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

Superintendent and School Board
Hazlehurst City School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Hazlehurst City School District as of and for the year ended June 30, 2006 which collectively comprise Hazlehurst City School District's basic financial statements, and have issued our report thereon dated August 23, 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

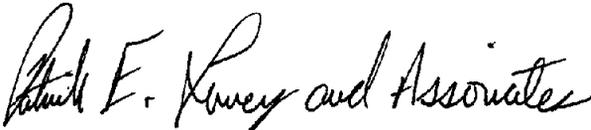
In planning and performing our audit, we considered the school district's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the school district's ability to initiate, record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the Schedule of Findings and Questioned Costs as Findings 2006-01 and 2006-02.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable conditions described in the findings referred to above are considered to be a 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 disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the Schedule of Findings and Questioned Costs as Findings 2006-03 and 2006-04. We have also noted certain immaterial instances of noncompliance that we have reported to management of the school district in a separate letter dated August 23, 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.



Patrick E. Lowery and Associates
Certified Public Accountants

August 23, 2007

PATRICK E. LOWERY AND ASSOCIATES

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

Superintendent and School Board
Hazlehurst City School District

Compliance

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

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

As described in Finding 2006-03 in the Schedule of Findings and Questioned Costs, the school district did not comply with requirements regarding reporting of displaced students that are applicable to its Hurricane Education Recovery Funds. Compliance with such requirements is necessary, in our opinion, for the school district to comply with requirements applicable to that program.

As described in Finding 2006-04 in the Schedule of Findings and Questioned Costs, the school district did not comply with cash management requirements that are applicable to its Title I – grants to local educational agencies program. Compliance with such requirements is necessary, in our opinion, for the school district to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraphs, Hazlehurst City 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.

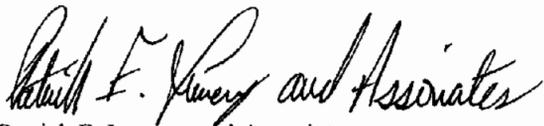
Internal Control Over Compliance

The management of the Hazlehurst City 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.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the school district's ability to administer a major federal program in accordance with applicable requirements of laws, regulation, contracts and grants. The reportable condition is described in the Schedule of Findings and Questioned Costs as Finding 2006-02.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described in the finding referred to above is 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.


Patrick E. Lowery and Associates
Certified Public Accountants

August 23, 2007

HAZLEHURST CITY SCHOOL DISTRICT

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

PATRICK E. LOWERY AND ASSOCIATES

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

Superintendent and School Board
Hazlehurst City School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Hazlehurst City School District as of and for the year ended June 30, 2006 which collectively comprise Hazlehurst City School District's basic financial statements, and have issued our report thereon dated August 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33 (3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$4,257 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 instances of noncompliance with other state laws and regulations. Our findings and recommendations and your responses are as follows:

1. Finding

The district did not prepare a list of educable children by township of children enrolled and residing in shared sixteenth section townships by December 31 as required by Section 29-3-121, Miss. Code Ann. (1972).

Recommendation

The district should comply with Section 29-3-121, Miss. Code Ann. (1972), which requires the district to compile a list of educable children enrolled and residing in the district. Such lists shall be made separately as to the township in which such children reside and filed with the superintendent of the custodial district on or before December 31 of each year.

School District's Response

We concur. This list was prepared by the previous administration manually. The current administration is implementing procedures to retrieve this report via the student software SAM 6i.

2. Finding

Early in the fiscal year, the School Board approved transfer of up to \$250,000 from the 16th Section Interest Fund to the District Maintenance Fund. The Business Manager made numerous small transfers during the year and the total of those transfers exceeded the \$250,000 authorized. The financial statements of the District reflected \$250,000 in transfers although the actual total was \$259,380.

Recommendation

The district should comply with Attorney General Opinion 44370 dated June 1, 1982 which states that the Board should approve each transfer made. Transfers should not exceed the amount approved by the Board.

School District's Response

We concur. The district will comply with the Attorney General Opinion 44370 and approve each transfer.

3. Finding

Section 29-3-57, Miss. Code Ann. (1972), states, "It shall be the duty of the superintendent of education to collect promptly all rentals due and all principal and interest due upon loans and investments of Sixteenth Section Principal Trust Funds. Upon a sixty (60) day default in payment of any rentals according to the terms of such lease, the lease shall be declared terminated unless the board of education finds extenuating circumstances were present....." During test work, we identified several leases for which payments were more than 60 days past due with no documentation that board action had been taken as required by Section 29-3-57, Miss. Code Ann. (1972).

Recommendation

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

School District's Response

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

4. Finding

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

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

Recommendation

The district should comply with Section 37-61-19, Miss. Code Ann. (1972), which requires a fund to be budgeted

before any expenditures are incurred in that fund.

School District's Response

We concur. The district will comply with Section 37-61-19, Miss. Code Ann. (1972), and budget all funds before expenditures are incurred in the fund.

5. Finding

Section 29-3-111. Miss. Code Ann. (1972), states, "No school land trust funds may be expended after the annual Payment date until the payment is made on such loan. The annual payment can be made from any funds available to the school district except minimum foundation program funds." The annual principal and interest payment was not made on the 16th section principal loan.

Recommendation

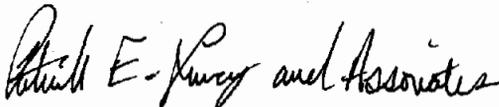
The district should make the scheduled payments on the 16th section principal loan as outlined in the repayment schedule.

School District's Response

We concur. The scheduled payments will be made as outlined in the repayment schedule.

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

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



Patrick E. Lowery and Associates
Certified Public Accountants

August 23, 2007

HAZLEHURST CITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section 1: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

- | | | |
|-----|---|-------------|
| 4. | Type of auditor's report issued on compliance for major federal programs: | |
| | Child Nutrition Cluster | Unqualified |
| | Title I Grants to local educational agencies | Qualified |
| | Hurricane Education Recovery | Qualified |
| 5. | Internal control over major programs: | |
| a. | Material weakness identified? | Yes |
| b. | Reportable condition identified that are not considered to be material weaknesses? | No |
| 6. | Any audit findings reported as required by Section ____ .510(a) of Circular A-133? | Yes |
| 7. | Federal programs identified as major programs: | |
| a. | Child Nutrition Cluster | |
| | CFDA # 10.553 School Breakfast Program | |
| | CFDA # 10.555 National School Lunch Program | |
| | CFDA # 10.559 Summer Food Service Program for Children | |
| b. | CFDA # 84.010 Title I grants to local educational agencies | |
| c. | CFDA# 84.398 Hurricane education recovery | |
| 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 |

2006-04 Finding

Compliance Requirement: Cash Management

Program: Title I – grants to local educational agencies – CFDA # 84.010
U. S. Department of Education; passed through the Miss. Dept of Education

This program requires that the recipient only draws down cash to be used for immediate needs. The district requested fund in excess of immediate needs from the Mississippi Department of Education. Interest earned on the excess funds was not reported and remitted to the federal agency. This situation represents a weakness over the controls surrounding the cash management requirement of the federal agency.

Recommendation

The district should implement policies and procedures that will ensure compliance with the cash management requirements of the Title I program.

Section 2: Financial Statement Findings

Material Weakness

2006-01 Finding

During our examination of the cash and other deposits account, we noted that bank reconciliations were not performed in a timely manner. Numerous reconciliations did not agree with the district-prepared financial statements

Recommendation

The district should implement procedures to insure that bank reconciliations are done on a monthly basis. Additional procedures should be made to insure that bank reconciliations agree with the underlying financial records.

2006-02 Finding

The district over reported 47 regular displaced students. The district also under reported 3 special education displaced students. The net of over and under claiming of students results in an overpayment which totals \$64,658. This amount is required to be refunded to the awarding agency. This finding is also a finding for a major federal program. See Finding 2006-03

Recommendation

The funds should be refunded to the awarding agency as soon as possible.

Section 3: Federal Award Findings and Questioned Costs

2006-03 Finding

Compliance Requirement: Program Income

Program: Hurricane Education Recovery – CFDA # 84.938

U. S. Department of Education passed through the Mississippi Department of Education

The program requires reporting of the number of students to determine the amount of reimbursement that the district is eligible to receive. The district over reported 47 regular displaced students. The district also under reported 3 special education displaced students. The net of over and under claiming of students results in an overpayment which totals \$64,658. This amount is required to be refunded to the awarding agency.

Questioned Cost: \$64,658.00

Recommendation

The funds should be refunded to the awarding agency as soon as possible.

HAZLEHURST CITY SCHOOL DISTRICT

AUDITEE'S CORRECTIVE ACTION PLAN AND SUMMARY OF PRIOR AUDIT FINDINGS

Hazlehurst City School District

Office of the Superintendent

AUDITEE'S CORRECTIVE ACTION PLAN

As required by Section _ .315(B) of OMB Circular A-133, the Hazlehurst City School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2006:

<u>Finding</u>	<u>Corrective Action Plan Details</u>
2006-1	<p>a. Name of Contact Person Responsible for Corrective Action: Name: Robert Boone Title: Interim Superintendent Phone #: (601) 894-1152</p> <p>b. Corrective Action Planned The bank statements will be reconciled to the district's financial statements on a timely basis.</p> <p>c. Anticipated Completion Date: October 15, 2007</p>
2006-2	<p>a. Name of Contact Person Responsible for Corrective Action: Name: Robert Boone Title: Interim Superintendent Phone #: (601) 894-1152</p> <p>b. Corrective Action Planned The district did not have the records required to claim reimbursement funds for students that were displaced by Hurricane Katrina. The district is locating the required records to comply with the requirements of the federal program. If the records cannot be located, the funds will be refunded to the awarding agency.</p> <p>c. Anticipated Completion Date: September 30, 2007.</p>
2006-3	<p>a. Name of Contact Person Responsible for Corrective Action: Name: Robert Boone Title: Interim Superintendent Phone #: (601) 894-1152</p> <p>b. Corrective Action Planned The district did not have the records required to claim reimbursement funds for students that were displaced by Hurricane Katrina. The district is locating the required records to comply with the requirements of the federal program. If the records cannot be located, the funds will be refunded to the awarding agency.</p>

119 Robert McDaniel Drive, Hazlehurst, Mississippi 39083
601-894-1152 601-894-3170 (Fax)

2006-4

- c. Anticipated Completion Date: September 30, 2007.
- a. Name of Contact Person Responsible for Corrective Action:
Name: Robert Boone
Title: Interim Superintendent
Phone #: (601) 894-1152
- b. Corrective Action Planned
The district will implement procedures to insure compliance with the cash management requirements for federal program funds. The district will only draw down funds for each federal program sufficient to cover the expenditures of such programs.
- c. Anticipated Completion Date: Completed.