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Jackson Public School District

**Audit Report
June 30, 2006**



LYLES AND SINCLAIR

CERTIFIED PUBLIC ACCOUNTANTS

Jackson Public School District

Audited Financial Statements
For the Year Ended June 30, 2006

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JACKSON PUBLIC SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

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LYLES AND SINCLAIR

CERTIFIED PUBLIC ACCOUNTANTS

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MARY LYLES, CPA, MPA

TRACEY SINCLAIR, CPA

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

Superintendent and School Board
Jackson Public School District

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Jackson Public 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 June 6, 2008, on our consideration of the Jackson Public 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 four through twelve and the Budgetary Comparison Schedule and corresponding notes on pages 35 through 36 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 Jackson Public School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. In addition, the Schedule

of Instructional, Administrative and Other Expenditures - Governmental Funds is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


Lyles and Sinclair, PLLC

May 27, 2008

JACKSON PUBLIC SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

The Jackson Public School District has 59 schools - 8 high schools and a Career Development Center, 10 middle schools, 38 elementary schools, and 2 special schools. With approximately 31,500 students enrolled, the Jackson Public School District is the largest school district in Mississippi. More than 83% of Jackson's school-age children attend one of our 59 schools. These students represent almost 1/5 of Jackson's total population. Our student population is larger than the populations of all but 7 Mississippi cities, and larger than 54 Mississippi counties. The District has 4,824 full-time employees.

FINANCIAL HIGHLIGHTS

- Total net assets decreased \$643,753, which represents 1.7% decrease from fiscal year 2005. This decrease was caused by an increase in the instructional expenditures of the District.
- General revenues account for \$205,145,628 in revenue, or 77.4% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$59,950,591 or 22.6% of total revenues.
- The District had \$265,648,653 in expenses; only \$59,950,591 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$205,145,628 were adequate to provide for these programs.
- Among major funds, the General Fund had \$193,162,356 in revenues and \$213,505,817 in expenditures. The General Fund's fund balance decreased \$2,444,890 over the prior year.
- Capital assets, net of accumulated depreciation, decreased by \$318,722.
- Long-term debt decreased by \$7,818,072.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

The government-wide financial statements can be found on page 14 of this report.

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

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's current financing requirements. Governmental funds are reported using modified accrual accounting. This method of accounting measures

cash and other assets that can be easily converted to cash. The governmental funds statements provide a detailed short-term view of the school district's operations.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 17 and 19, respectively, of this report.

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

The basic governmental fund financial statements can be found on pages 16 and 18 respectively.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The school district's fiduciary activities are presented in separate Statements of Fiduciary Net Assets on page 20.

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. The notes to the financial statements can be found on pages 21 through 33 of this report.

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major special revenue fund. This required supplementary information can be found on pages 35 - 36 of this report.

A schedule of expenditures of federal awards is required by OMB Cir. A-133 and schedule of instructional, administrative and other expenditures for governmental funds can be found on pages 38 and 40, respectively, of 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 \$37,115,218 as of June 30, 2006.

By far the largest portion of the District’s net assets (43.2%) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment, leased property under capital leases and construction in progress, less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

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

The following table presents a summary of the District’s net assets as of June 30, 2006 and 2005, respectively.

	<u>Net Assets</u>		<u>Percentage</u>
	<u>June 30, 2006</u>	<u>June 30, 2005</u>	<u>Change</u>
Current assets	\$ 47,005,795	\$ 57,312,590	(18.0%)
Capital assets, net	103,072,910	103,391,632	(0.3%)
Total assets	150,078,705	160,704,222	(6.6%)
Current liabilities	16,542,416	18,706,108	(11.6%)
Long-term debt outstanding	96,421,071	104,239,143	(7.5%)
Total liabilities	112,963,487	122,945,251	(8.1%)
Net assets:			
Invested in capital assets, net of related debt	16,047,133	11,419,266	40.5%
Restricted	12,806,639	17,111,991	(25.2%)
Unrestricted	8,261,446	9,227,714	(10.5%)
Total net assets	\$ 37,115,218	\$ 37,754,971	(1.7%)

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

- The use of current assets to pay for current liabilities has reduced both current assets and current liabilities for the year ending June 30, 2006

Changes in net assets. The District's total revenues for the fiscal year ended June 20, 2006 were \$265,096,219. The total cost of all programs and services was \$265,648,653. The following table presents a summary of the changes in net assets for the fiscal years ending June 30, 2006 and 2005, respectively.

	<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	\$ 3,506,232	\$ 5,380,087	(34.8%)
Operating grants and contributions	56,444,359	44,531,580	26.8%
Capital grants and contributions	-	-	0.0%
General revenues:			
Property taxes	79,824,777	78,090,043	2.2%
Unrestricted investments earnings	922,703	1,044,014	(11.6%)
Grants and contributions not restricted	119,472,010	111,086,492	7.5%
Other	4,926,138	2,963,613	66.2%
Total revenues	<u>265,096,219</u>	<u>243,095,829</u>	9.1%
Expenses:			
Instruction	149,885,526	131,510,473	14.0%
Support services	93,540,845	94,563,175	(1.1%)
Non-instructional	17,443,013	15,383,542	13.4%
Sixteenth section	96,932	71,272	36.0%
Interest and other expense on long-term liabilities	<u>4,682,337</u>	<u>5,290,374</u>	(11.5%)
Total expenses	<u>265,648,653</u>	<u>246,818,836</u>	7.6%
Increase (Decrease) in net assets	<u>(552,434)</u>	<u>(3,723,007)</u>	(85.2%)
Net Assets, July 1	37,758,971	38,958,843	(3.1%)
Prior period adjustment	<u>(91,319)</u>	<u>2,523,135</u>	(96.4%)
Net Assets, as restated	<u>37,667,652</u>	<u>41,481,978</u>	(9.2%)
Net Assets, June 30	<u>\$37,115,218</u>	<u>\$ 37,758,971</u>	(1.7%)

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

- Operating grants and contributions increased \$11,912,779 from the previous fiscal year.
- Unrestricted grants and contributions increased \$8,385,518 from the previous fiscal year.

- Instructional expenses increased \$18,375,053 from the previous fiscal year primarily as a result of an increase in teacher salaries and payroll fringe benefits.
- Support services expenses decreased \$1,022,330 from the previous fiscal year.

Governmental activities. The following table presents the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section and interest and other expenses on long-term debt for fiscal years ending June 30, 2006 and 2005, respectively. 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	\$149,885,526	\$(121,237,271)	\$131,510,473	\$(110,924,850)
Support services	93,540,845	(78,580,047)	94,563,175	(80,124,825)
Non-instructional	17,443,013	(1,101,475)	15,383,542	(495,848)
Sixteenth section	96,932	(96,932)	71,272	(71,272)
Interest and other expenses on long-term liabilities	4,682,337	(4,682,337)	5,290,374	(5,290,374)
Total expenses	\$265,648,653	\$(205,698,062)	\$ 246,818,836	\$(196,907,169)

- Net cost of governmental activities (\$205,698,062) was financed by general revenue, which is made up of primarily property taxes (\$79,824,777) and state revenue (\$116,691,017).
- Investment earnings accounted for \$922,703 of funding.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's governmental funds is to provide information on current inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$31,369,798, a decrease of \$8,361,445 due primarily to a reduction in fund balance for capital projects. \$23,321,515 or 74.3% of the fund balance constitutes unreserved and undesignated

fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$8,048,283 or 25.7% is reserved or designated to indicate that it is not available for spending because it has already been committed primarily for capital projects.

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was \$2,444,890 and was the result of the District's intentionally drawing down previous years' accumulated fund balance. The fund balance in the 2003-B Construction Fund decreased \$4,266,572 due primarily to construction projects drawing closer to completion. The fund balance of Other Governmental Funds decreased \$1,649,983 due primarily to other construction projects drawing closer to completion.

BUDGETARY HIGHLIGHTS

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

- Budget amounts for revenue from state sources decreased. The original budgeted amounts overestimated budgeted amounts by the Mississippi legislature. This was done upon suggestion of the Mississippi Department of Education.
- Proceeds from the inception of capital leases totaling \$3,790,573 were not anticipated at the time the original budget was adopted.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2006, the District's total capital assets were \$189,481,354, including land, school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$4,371,836 from the previous year. Total accumulated depreciation as of June 30, 2006 was \$86,408,444 and total depreciation expense for the year was \$5,493,477, resulting in total net assets of \$103,072,910.

	<u>Capital Assets, Net of Depreciation</u>		<u>Percentage</u>
	<u>2006</u>	<u>2005</u>	<u>Change</u>
Land	\$ 2,937,842	\$ 2,937,842	0.0%
Buildings	79,496,594	81,120,690	(2.0%)
Improvements other than buildings	9,966,265	10,845,625	(8.1%)
Mobile equipment	4,285,654	5,035,207	(14.9%)
Furniture and equipment	925,183	1,358,983	(31.9%)
Leased property under capital leases	1,105,369	8,054	136.2%
Construction in progress	<u>4,356,003</u>	<u>2,085,231</u>	108.9%
Total	<u>\$103,072,910</u>	<u>\$103,391,632</u>	(0.3%)

Additional information of the District's capital assets can be found in Note 5 on page 27 of this report.

Debt Administration. At June 30, 2006, the District had \$96,421,071 in general obligation bonds and other long-term debt outstanding, of which \$9,953,392 is due within one year.

	<u>Outstanding Debt</u>		<u>Percentage Change</u>
	<u>2006</u>	<u>2005</u>	
General obligation bonds payable	\$ 4,625,000	\$ 9,170,000	(49.6%)
Limited obligation bonds payable	26,520,000	27,525,000	(3.7%)
Three mill notes payable	50,366,688	52,951,688	(4.9%)
Obligations under capital leases	3,014,089	2,325,678	29.6%
Obligations under energy efficiency leases	7,693,782	8,124,094	(5.3%)
Qualified zone academy bonds payable	2,500,000	2,500,000	0.0%
Compensated absences payable	<u>1,701,512</u>	<u>1,642,683</u>	(3.6%)
Total	<u>\$ 96,421,071</u>	<u>\$104,239,143</u>	(7.5%)

The District maintains an Aaa bond rating with Moody's Investor Services.

Additional information of the District's long-term debt can be found in Note 6 on page 28 of this report.

CURRENT ISSUES

The Jackson Public School District is financially stable. The District is proud of its community support of the public schools.

The District has committed itself to financial excellence for many years. The millage has increased 0.94% over five years. In addition, the District system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

District enrollment figures have remained at approximately 31,500 students since the 2000-2001 school year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Jackson Public School District, Post Office Box 2338, Jackson, Mississippi 39225-2338.

JACKSON PUBLIC SCHOOL DISTRICT

FINANCIAL STATEMENTS

JACKSON PUBLIC SCHOOL DISTRICT
Statement of Net Assets
June 30, 2006

Exhibit A

	<u>Governmental</u> <u>Activities</u>
Assets	
Cash and cash equivalents	\$ 22,699,151
Cash with fiscal agents	4,166,993
Due from other governments	16,014,725
Other receivables, net	2,960,868
Inventories and prepaid items	900,929
Restricted assets	263,129
Capital assets, not being depreciated:	
Land	2,937,842
Construction in progress	4,356,003
Capital assets, net of accumulated depreciation:	
Buildings	79,496,594
Improvements other than buildings	9,966,265
Mobile equipment	4,285,654
Furniture and equipment	925,183
Leased property under capital leases	1,105,369
Total Assets	<u>150,078,705</u>
Liabilities	
Accounts payable and accrued liabilities	14,873,733
Unearned revenue	762,264
Interest payable on long-term liabilities	906,419
Long-term liabilities, due within one year	
Capital related liabilities	9,380,010
Non-capital related liabilities	573,382
Long-term liabilities, due beyond one year	
Capital related liabilities	77,645,767
Non-capital related liabilities	8,821,912
Total Liabilities	<u>112,963,487</u>
Net Assets	
Invested in capital assets, net of related debt	16,047,133
Restricted net assets:	
Expendable:	
School-based activities	5,659,285
Debt service	2,112,843
Capital improvements	4,068,829
Forestry improvements	25,775
Unemployment benefits	676,778
Non-expendable:	
Sixteenth section	263,129
Unrestricted	8,261,446
Total Net Assets	<u>\$ 37,115,218</u>

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

JACKSON PUBLIC 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
					Governmental Activities
Governmental Activities:					
Instruction	\$ 149,885,526	1,362,000	27,286,255		(121,237,271)
Support services	93,540,845		14,960,798		(78,580,047)
Non-instructional	17,443,013	2,144,232	14,197,306		(1,101,475)
Sixteenth section	96,932				(96,932)
Interest on long-term liabilities	4,682,337				(4,682,337)
Total Governmental Activities	\$ 265,648,653	3,506,232	56,444,359	0	(205,698,062)

General Revenues:

Taxes:

General purpose levies	72,303,911
Debt purpose levies	7,520,866

Unrestricted grants and contributions:

State	116,691,017
Federal	2,780,993
Unrestricted investment earnings	922,703
Sixteenth section sources	1,066,180
Other	3,859,958

Total General Revenues 205,145,628

Total General Revenues 205,145,628

Change in Net Assets (552,434)

Net Assets - Beginning 37,758,971

Prior Period Adjustments (91,319)

Net Assets - Beginning - Restated 37,667,652

Net Assets - Ending \$ 37,115,218

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

JACKSON PUBLIC SCHOOL DISTRICT
 Balance Sheet - Governmental Funds
 June 30, 2006

Exhibit C

	Major Funds			Total Governmental Funds
	General Fund	2003-B Construction Fund	Other Governmental Funds	
ASSETS				
Cash and cash equivalents	\$ 6,691,820	4,304,972	11,965,488	22,962,280
Cash with fiscal agents	2,755,994		1,410,999	4,166,993
Due from other governments	6,205,135		9,809,590	16,014,725
Accrued interest receivable				
Other receivables, net	1,484,995		417,651	1,902,646
Due from other funds	14,309,192	50,130	3,422,793	17,782,115
Inventories and prepaid items	486,444		414,485	900,929
Total Assets	\$ 31,933,580	4,355,102	27,441,006	63,729,688
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 10,900,858	769,829	3,179,156	14,849,843
Due to other funds	2,116,285	32,843	14,574,765	16,723,893
Deferred revenue	8,834		753,430	762,264
Other payables			23,890	23,890
Total Liabilities	13,025,977	802,672	18,531,241	32,359,890
Fund Balances:				
Reserved for:				
Inventory	486,444		414,485	900,929
Capital projects		3,552,430	516,399	4,068,829
Debt service			2,112,843	2,112,843
Unemployment benefits			676,778	676,778
Forestry improvement purposes			25,775	25,775
Permanent fund purposes			263,129	263,129
Unreserved:				
Undesignated, reported in:				
General Fund	18,563,159			18,563,159
Special Revenue Funds			4,758,356	4,758,356
Total Fund Balances	19,049,603	3,552,430	8,767,765	31,369,798
Total Liabilities and Fund Balances	\$ 32,075,580	4,355,102	27,299,006	63,729,688

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

JACKSON PUBLIC 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	\$ 31,369,798
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets are used in governmental activities and are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$86,408,444.	103,072,910
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(96,421,071)
3. Governmental funds recognize interest on long-term debt when it becomes due, however the Statement of Net Assets recognizes interest as it accrues.	(906,419)
Total Net Assets - Governmental Activities	\$ <u>37,115,218</u>

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

JACKSON PUBLIC SCHOOL DISTRICT

Exhibit D

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2006

	Major Funds		Other	Total
	General Fund	2003-B Construction Fund	Governmental Funds	Governmental Funds
Revenues:				
Local sources	\$ 76,163,435	132,129	10,206,180	86,501,744
State sources	113,677,068		8,402,932	122,080,000
Federal sources	3,321,853		50,781,800	54,103,653
Sixteenth section sources			1,066,180	1,066,180
Total Revenues	193,162,356	132,129	70,457,092	263,751,577
Expenditures:				
Instruction	109,895,857		32,180,143	142,076,000
Support services	79,520,340		16,868,165	96,388,505
Noninstructional services	119,166		15,577,495	15,696,661
Sixteenth section			96,932	96,932
Facilities acquisition and construction	1,729,159	4,434,574	166,200	6,329,933
Debt service:				
Principal	21,388,481		34,650,000	56,038,481
Interest	852,814		3,685,807	4,538,621
Other			362,055	362,055
Total Expenditures	213,505,817	4,434,574	103,586,797	321,527,188
Excess (Deficiency) of Revenues over Expenditures	(20,343,461)	(4,302,445)	(33,129,705)	(57,775,611)
Other Financing Sources (Uses):				
Proceeds of refunding bonds			26,520,000	26,520,000
Proceeds of loans	20,000,000			20,000,000
Inception of capital leases	1,646,580			1,646,580
Insurance loss recoveries	1,289,899			1,289,899
Sale of transportation equipment	54,743			54,743
Payment held by escrow agent			142,000	142,000
Operating transfers in	3,889,994	5,705	8,921,263	12,816,962
Operating transfers out	(8,994,711)	(804)	(3,821,447)	(12,816,962)
Payment to Qualified Zone Academy debt escrow agent			(142,000)	(142,000)
Total Other Financing Sources (Uses)	17,886,505	4,901	31,619,816	49,511,222
Net Change in Fund Balances	(2,456,956)	(4,297,544)	(1,509,889)	(8,264,389)
Fund Balances:				
July 1, 2005	21,494,493	7,819,002	10,417,748	39,731,243
Prior period adjustments	(87,400)	30,972	(41,362)	(97,790)
July 1, 2005, as restated	21,407,093	7,849,974	10,376,386	39,633,453
Increase (Decrease) in reserve for inventory	(42,534)		43,268	734
June 30, 2006	\$ 18,907,603	3,552,430	8,909,765	31,369,798

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

JACKSON PUBLIC 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	\$ (8,264,389)
Amounts reported for governmental activities in the Statement of Activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchase amounted to \$5,210,444 and the depreciation expense amounted to \$5,493,477.	(283,033)
2. Proceeds of long-term liabilities are reported in the governmental funds, but not in the Statement of Activities.	(48,166,580)
3. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Activities.	56,038,481
4. 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.	218,339
5. Gains and losses on the sale or disposals of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds.	(35,689)
6. Increase (decrease) in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are (decreased) increased in the Statement of Activities.	(734)
7. 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	(58,829)
Change in Net Assets of Governmental Activities	\$ <u><u>(552,434)</u></u>

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

JACKSON PUBLIC SCHOOL DISTRICT
Statement of Fiduciary Net Assets
June 30, 2006

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 4,356,762
Investments	
Other receivables	42,113
Due from other funds	
Due from other governments	
	<hr/>
Total Assets	\$ <u>4,398,875</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 3,040,549
Due to other governments	
Due to other funds	1,058,222
Due to student clubs	<u>300,104</u>
	<hr/>
Total Liabilities	\$ <u>4,398,875</u>

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

JACKSON PUBLIC 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 Jackson since the governing authority of the city selects a majority of the school district's board but does not have financial accountability for the school district.

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 reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category.

C. Measurement Focus and Basis of Accounting.

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

JACKSON PUBLIC SCHOOL DISTRICT

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

In the fund financial statements, governmental funds and agency funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Property taxes, state appropriations and federal awards associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

The school district reports the following major governmental funds:

General Fund - This is the school district's primary operating fund. It accounts for all financial resources of the school district, except those required to be accounted for in another fund.

2003-B Construction Fund - This is the school district's fund used to account for the capital expenditures for building construction, renovations and classroom additions.

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

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

FIDUCIARY FUNDS

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

D. Account Classifications.

The account classifications used in the financial statements conform to the classifications recommended in the *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, 2003* 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.

JACKSON PUBLIC SCHOOL DISTRICT

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

Cash and cash equivalents consists of amounts on deposit in demand accounts and certificates of deposit with original maturities of three 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 three months when acquired.

Investments are reported at fair value.

H. Inventories and Prepaid Items.

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

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

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

I. Capital Assets.

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

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

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

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

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

(*) 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

JACKSON PUBLIC SCHOOL DISTRICT

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

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.

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

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

L. Equity Classifications.

Government-Wide Financial Statements:

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

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

Fund Financial Statements:

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

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

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

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

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

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

JACKSON PUBLIC SCHOOL DISTRICT

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

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

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

M. Property Taxes.

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

N. Mississippi Adequate Education Program Revenues.

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

O. Compensated Absences.

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

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

(2) Changes in Accounting Standards.

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

(3) Cash and Cash Equivalents and Cash with Fiscal Agents.

The district follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Restrictions on deposits 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.

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 \$22,962,280 and \$4,356,762, respectively. The carrying amount of deposits reported in the government-wide financial statements was: Cash and Cash

JACKSON PUBLIC SCHOOL DISTRICT

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

Equivalents - \$22,699,151 and Restricted Assets - \$263,129. The Restricted Assets represent the cash balance of the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$33,036,246.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2006, none of the district's bank balance of \$33,036,246 was exposed to custodial credit risk.

Cash With Fiscal Agents.

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$4,166,993.

(4) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/to Other Funds:

	<u>Due From</u>	<u>Due To</u>
Major funds:		
General Fund	\$14,309,192	2,116,285
Other major funds		
2003B Construction Fund	50,130	32,843
Non-major Funds	3,422,793	14,574,765
Fiduciary Funds	_____	<u>1,058,222</u>
Total funds	<u>\$17,782,115</u>	<u>17,782,115</u>

B. Transfers In/Out.

	<u>Transfer In</u>	<u>Transfer Out</u>
Major funds:		
General Fund	\$ 3,889,994	8,994,711
Other major funds		
2003B Construction Fund	5,705	804
Non-major Funds	<u>8,921,263</u>	<u>3,821,447</u>
Total funds	<u>\$12,816,962</u>	<u>12,816,962</u>

JACKSON PUBLIC 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:

	<u>Balance 7-1-05</u>	<u>Additions</u>	<u>Retirements</u>	<u>Completed Construction</u>	<u>Adjustments</u>	<u>Balance 6-30-06</u>
<u>Non-depreciable capital</u>						
Land	\$ 2,937,842					2,937,842
Construction in progress	<u>2,085,231</u>	<u>2,270,772</u>				<u>4,356,003</u>
Total non-depreciable	5,023,073	2,270,772				7,293,845
<u>Depreciable capital assets:</u>						
Buildings	126,334,191	470,000	16,750			126,787,441
Improvements other than buildings	23,396,477	16,928	7,171			23,406,234
Mobile equipment	16,591,949	744,648	90,241			17,246,356
Furniture and equipment	13,547,726	61,516	724,446			12,884,796
Leased property under capital leases	<u>216,102</u>	<u>1,646,580</u>				<u>1,862,682</u>
Total depreciable capital	180,086,445	2,939,672	838,608			182,187,509
<u>Less accumulated</u>						
Buildings	45,213,501	2,089,071	11,725			47,290,847
Improvements other than buildings	12,550,852	893,133	4,016			13,439,969
Mobile equipment	11,556,742	1,485,177	81,217			12,960,702
Furniture and equipment	12,188,743	476,831	705,961			11,959,613
Leased property under capital leases	208,048	549,265				757,313
Total accumulated depreciation	<u>81,717,886</u>	<u>5,493,477</u>	<u>802,919</u>			<u>86,408,444</u>
Total depreciable capital assets, net	<u>98,368,559</u>	<u>(2,553,805)</u>	<u>35,689</u>			<u>95,779,065</u>
Governmental activities capital assets, net	<u>\$103,391,632</u>	<u>(283,033)</u>	<u>35,689</u>			<u>103,072,910</u>

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$3,686,083
Support services	1,745,618
Non-instructional	<u>61,776</u>
Total depreciation expense	<u>\$5,493,477</u>

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

Commitments under construction contracts at June 30, 2006, are summarized as follows:

<u>Project name</u>	<u>Remaining Commitment</u>	<u>Required Future Financing</u>
Classroom additions		
Boyd	\$ 49,062	-
HVAC		
Morrison	<u>331,419</u>	-
Total	<u>\$ 380,481</u>	-

JACKSON PUBLIC 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 7-1-05	Additions	Reductions	Adjustments	Balance 6-30-06	Amounts due within one year
A. General obligation bonds payable	\$ 9,170,000	-	4,545,000	-	4,625,000	4,625,000
B. Limited obligation bonds payable	27,525,000	26,520,000	27,525,000	-	26,520,000	1,150,000
C. Three mill notes payable	52,951,688	-	2,580,000	(5,000)	50,366,688	2,620,000
D. Obligations under capital leases	2,325,678	1,646,580	958,169	-	3,014,089	985,010
E. Obligations under energy efficiency lease	8,124,094	-	430,312	-	7,693,782	466,845
F. Qualified zone academy bonds payable	2,500,000	-	-	-	2,500,000	-
G. Compensated absences payable	1,642,683	58,829	-	-	1,701,512	106,537
Total	\$ 104,239,143	28,225,409	36,038,481	(5,000)	96,421,071	9,953,392

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
Leasing Authority - 3.75 mil Refunding	4.25 - 6.0	6/8/95	4/1/07	\$18,870,000	2,030,000
General Obligation Refunding Bond, Series 1998	Various	9/23/98	7/1/07	13,290,000	2,595,000
Total				\$32,160,000	4,625,000

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

Year Ending June 30	Principal	Interest	Total
2007	4,625,000	121,715	4,746,715
Total	4,625,000	121,715	4,746,715

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 1% of property assessments as of October 1, 2005. This debt will be retired from the Bond Retirement Funds.

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 Refunding bonds, Series 2006	4.25 - 6.0	2/22/06	2/1/18	\$26,520,000	26,520,000
Total				\$26,265,000	26,520,000

JACKSON PUBLIC 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:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	1,150,000	987,646	2,137,646
2008	1,825,000	990,752	2,815,752
2009	1,870,000	916,853	2,786,853
2010	1,940,000	847,927	2,787,927
2011	2,010,000	783,238	2,793,238
2012-2016	11,300,000	2,682,351	13,982,351
2017-2018	6,425,000	361,775	6,786,775
Total	<u>26,520,000</u>	<u>7,570,542</u>	<u>34,090,542</u>

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

On February 22, 2006, Jackson Public School District issued \$26,520,000 in State Aid Capital Improvement Refunding Bonds with an average interest rate of 4.21 percent to advance refund \$26,035,000 of outstanding 2003 State Aid Capital Improvement Bonds with an average interest rate of 4.89 percent.

The district advance refunded the 2003 State Aid Capital Improvement Bonds to reduce its total debt service payments over the remaining 12 years of the debt by approximately \$630,771 and to obtain an economic gain of \$623,585.

C. Three mill notes payable.

The District issued limited tax notes to acquire, improve, renovate construct, repair, heat, cool, and equip school buildings and related facilities. Debt currently outstanding is as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Limited Tax Notes Series 2000-A	4.35 - 4.8	9/1/00	10/1/10	\$ 3,000,000	980,000
Limited Tax Notes Series 2000-B	4.35 - 5.375	9/1/00	10/1/20	\$32,205,000	5,840,000
Limited Tax Notes Series 2003-B	4.35 - 5.375	10/1/03	10/1/08	\$ 4,615,000	2,675,000
Limited Tax Notes Series 2003-B	4.35 - 5.375	10/1/03	10/1/23	\$16,381,688	15,831,688
Limited Tax Notes Series 2005	2.45 - 5.0	5/2/05	10/2/20	\$ 25,220,000	25,040,000
Total				<u>\$81,421,688</u>	<u>50,366,688</u>

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 2,620,000	3,139,011	5,759,011
2008	2,635,000	3,047,913	5,682,913
2009	2,715,000	2,950,785	5,665,785
2010	2,770,000	2,810,384	5,580,384
2011	2,865,000	2,705,357	5,570,357
2012-2016	15,748,351	5,589,509	21,337,860
2017-2021	10,958,145	4,914,301	15,872,446
2022-2025	10,055,192	8,059,808	18,115,000
Total	<u>\$ 50,366,688</u>	<u>33,217,068</u>	<u>83,583,756</u>

This debt will be retired from the Three Mill Notes Retirement Funds.

JACKSON PUBLIC SCHOOL DISTRICT

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

D. Obligations under capital leases.

The school district has entered into four lease agreements that qualify as capital leases for accounting purposes. Leased property under these leases is composed of:

1. Digital video servers
2. Computers, radios, and video servers

The various options available to the lessee for these leases are as follows:

1. The lessee may, at its option, pay to the lessor the purchase price set forth in the payment schedule in order to purchase the equipment.
2. Title to the equipment passes to the lessee at the end of the lease period after the lease obligation has been fulfilled.

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

Year Ending June 30	Principal	Interest and Maintenance Charges	Total
2007	985,010	90,541	1,075,551
2008	1,016,593	58,959	1,075,552
2009	764,236	26,343	790,579
2010	248,250	4,555	252,805
Total	<u>\$3,014,089</u>	<u>180,398</u>	<u>3,194,487</u>

This debt will be retired from the District Maintenance Fund

E. Obligations under energy efficiency lease.

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

Year Ending June 30	Principal	Interest and Maintenance Charges	Total
2007	466,845	405,364	872,209
2008	505,570	379,427	884,997
2009	546,612	351,357	897,969
2010	590,099	321,025	911,124
2011	636,170	288,298	924,468
2012 - 2016	3,972,942	856,325	4,829,267
2017	975,544	33,084	1,008,628
Total	<u>\$7,693,782</u>	<u>2,634,880</u>	<u>10,328,662</u>

An energy efficiency lease agreement dated July 2, 2002, was executed by and between the district, the lessee, and First Security Leasing, Inc., the lessor.

The agreement authorized the borrowing of \$8,348,849 for the purchase of energy efficiency equipment, machinery, supplies building modifications and other energy saving items. The agreement repayment schedule included capitalized interest resulting in total repayments of \$8,737,450. Payments of the lease shall be made from the district maintenance fund and not exceed ten (10) years.

The district entered into this energy efficiency lease agreement under the authority of Section 31-7-14, Miss. Code Ann. (1972).

JACKSON PUBLIC SCHOOL DISTRICT

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

Upon written notice to the lessor, the lessee has the option of repaying the total amount due as set forth by the agreement.

This debt will be retired from District Maintenance Fund.

F. Qualified Zone Academy bonds payable.

As more fully explained in Note 12, debt has been issued by the school district that qualifies as Qualified Zone Academy Bonds. Debt currently outstanding is as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Qualified Zone Academy bonds	0%	7/20/00	7/01/12	\$ <u>2,500,000</u>	<u>2,500,000</u>
Total				\$ <u>2,500,000</u>	<u>2,500,000</u>

This debt will be retired from the QZAB Debt Service Fund.

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 was 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 \$14,987,113, \$13,543,392 and \$12,608,099, respectively, which equaled the required contributions for each year.

(8) Other Commitments.

Commitments under construction contracts are described in Note 5.

Commitments under re-roofing and renovation contracts amount to \$2,994,224.

(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 therefrom as trust property. Accordingly, the board shall assure that adequate compensation is received for all uses of the trust lands, except for uses by the public schools. The following are the future rental payments to be made to the school district for the use of school trust lands. These future rental payments are from existing leases and do not anticipate renewals or new leases.

JACKSON PUBLIC SCHOOL DISTRICT

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

<u>Year Ending June 30</u>	<u>Amount</u>
2007	\$ 751,836
2008	716,586
2009	668,296
2010	644,976
2011	629,216
2012 - 2016	2,653,060
2017 - 2021	2,138,390
2022 - 2026	1,807,794
2027 - 2031	1,345,190
2032 - 2036	1,109,600
2037 - 2041	432,304
2042 - 2045	30,305
<hr/>	
Total	<u>\$ 12,927,553</u>

(10) Prior Period Adjustments/Exhibits.

A summary of significant fund equity adjustments is as follows:

<u>Exhibit B - Statement of Activities</u>	<u>Amount</u>
<u>Explanation</u>	
To correct a prior period error in recording an asset	\$ (91,319)
Total	<u>\$ (91,319)</u>

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

	<u>Explanations</u>	<u>Amount</u>
General Fund	To correct a prior period error in recording an asset	\$ (87,400)
2003-B Cpnstruction Fund	To correct a prior period error in recording an asset	30,972
Other Governmental Funds	To correct a prior period error in recording an asset	(41,362)
Total		<u>\$ (97,790)</u>

(11) Short-term Financing.

During the fiscal year ended June 30, 2006, the school district participated in the following short-term financing:

Tax Anticipation Note

Changes in short-term debt activity recorded in the governmental activities during fiscal year 2006 are as follows:

	<u>Balance 7-1-05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Adjustments</u>	<u>Balance 6-30-06</u>
	\$ -	20,000,000	20,000,000	-	-
Total	<u>\$ -</u>	<u>20,000,000</u>	<u>20,000,000</u>	<u>-</u>	<u>-</u>

(12) Litigation

The Jackson Public School District is involved in various claims against the district, arising in the normal course of business. Management believes that their insurance coverage will be sufficient to pay any liabilities.

JACKSON PUBLIC SCHOOL DISTRICT

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

(13) Risk Management.

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

Participation in Public Entity Risk Pool.

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 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 Bank in Jackson. The funds in the trust account are used to pay any claim up to \$500,000. For a claim exceeding \$500,000, MSBAWCT has insurance which will pay the excess up to \$25,000,000. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

(14) Prior Year Defeasance of Debt.

In prior years, the Jackson Public School District defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the district's financial statements. On June 30, 2006, \$24,535,000 of bonds outstanding are defeased.

(15) Qualified Zone Academy Bonds.

Section 226 of the Taxpayer Relief Act of 1997 (Public Law 105-34) provides for a source of capital at no or nominal interest rates for costs incurred by certain public schools in connection with the establishment of special academic programs from kindergarten through secondary school, in partnership with the business community. The school district, in agreement with Trustmark National Bank, has entered into such an agreement dated July 20, 2000.

This agreement establishes a method of repayment for a qualified interest-free debt instrument. The agreement requires the school district to deposit funds annually into a sinking fund account on or before July 1. The amount accumulated in the sinking fund at the end of the ten-year period will be sufficient to retire the debt. The following schedule reports the yearly deposits to be made to the sinking fund by the school district.

<u>Year Ending June 30</u>	<u>Amount</u>
2007	\$ 142,000
2008	142,000
2009	142,000
2010	142,000
2011	142,000
2012 - 2013	<u>262,000</u>
Total	<u>\$ 972,000</u>

REQUIRED SUPPLEMENTAL INFORMATION

JACKSON PUBLIC 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	\$ 74,281,009	75,682,533	76,163,435	1,401,524	480,902
State sources	114,430,445	113,677,068	113,677,068	(753,377)	0
Federal sources	820,000	2,927,536	3,321,853	2,107,536	394,317
Total Revenues	189,531,454	192,287,137	193,162,356	2,755,683	875,219
Expenditures:					
Instruction	113,531,012	114,637,660	109,895,857	(1,106,648)	4,741,803
Support services	74,525,022	77,766,784	79,520,340	(3,241,762)	(1,753,556)
Noninstructional services	208,758	132,918	119,166	75,840	13,752
Facilities acquisition and construction	2,054,799	2,955,418	1,729,159	(900,619)	1,226,259
Debt service:					
Principal	22,026,537	21,997,959	21,388,481	28,578	609,478
Interest	128,714	127,905	852,814	809	(724,909)
Total Expenditures	212,474,842	217,618,644	213,505,817	(5,143,802)	4,112,827
Excess (Deficiency) of Revenues over Expenditures	(22,943,388)	(25,331,507)	(20,343,461)	(2,388,119)	4,988,046
Other Financing Sources (Uses):					
Proceeds of loans	21,650,000	20,000,000	20,000,000	(1,650,000)	0
Inception of capital leases		3,790,573	1,646,580	3,790,573	(2,143,993)
Insurance loss recoveries			1,289,899	0	1,289,899
Sale of transportation equipment	30,000	54,742	54,743	24,742	1
Payment held by escrow agent			142,000	0	142,000
Operating transfers in	8,289,288	9,287,958	9,234,544	998,670	(53,414)
Operating transfers out	(10,246,037)	(12,259,357)	(14,197,261)	(2,013,320)	(1,937,904)
Payment to refunded bond escrow agent			(142,000)	0	(142,000)
Total Other Financing Sources (Uses)	19,723,251	20,873,916	18,028,505	1,150,665	(2,845,411)
				0	0
Net Change in Fund Balances	(3,220,137)	(4,457,591)	(2,314,956)	(1,237,454)	2,142,635
Fund Balances:					
July 1, 2005	19,697,316	19,697,316	21,494,493	0	1,797,177
Prior period adjustments		5,570	(87,400)	5,570	(92,970)
July 1, 2005, as restated	19,697,316	19,702,886	21,407,093	5,570	1,704,207
Increase (Decrease) in reserve for inventory			(42,534)	0	(42,534)
June 30, 2006	\$ 16,477,179	15,245,295	19,049,603	(1,231,884)	3,804,308

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

JACKSON PUBLIC SCHOOL DISTRICT

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

Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(2) Budget amendments and revisions.

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

(3) Individual Fund Disclosures.

Individual funds that were required to be budgeted but were not budgeted are as follows:

<u>Individual Fund</u>	<u>Amount</u>
2904 MS Language Arts Middle School Prog.	6,907
2909 Behavioral Modification	875
2931 Salvation Army 2003-04	4,649
2952 Teacher Induction Programs	5,000
2955 Title I Coop Fund 82	3,496
2977 Learn & Serve America Program	1,460
2984 Nuts and Bolts	607
2994 Middle School Drug (2830)	13,001
2996 Cornerstone Grant	11,212
3030 QZAB Construction	19,013
3903 Series 2003B Construction Fund	4,435,378
7332 Fashion Club	268
7335 Flag Girls	141
7384 Softball Girls	138
7385 Arts Council	13

The unbudgeted funds are in violation of state law. However, the school district has no liability associated with this violation.

JACKSON PUBLIC SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

JACKSON PUBLIC SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006

SCHEDULE 2

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food Donation	10.550	\$ <u>852,575</u>
Child Nutrition Cluster:		
School Breakfast Program	10.553	2,815,880
National School Lunch Program	10.555	9,092,709
Summer Food Service Program for Children	10.559	244,408
Total pass-through MD Department of Education		<u>12,152,997</u>
Summer Food Service Program for Children	10.559	190,727
Total Child Nutrition Cluster		<u>12,343,724</u>
Total U. S. Department of Agriculture		<u>13,196,299</u>
<u>U.S. Department of Defense</u>		
Direct program:		
Reserve Officers' Training Corps	12.XXX	<u>687,108</u>
Total Other Federal Assistance		<u>687,108</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company		
The schools and libraries program of the universal service fund	32.XXX	<u>1,741,938</u>
Total Federal Communications Commission		<u>1,741,938</u>
<u>National Aeronautics and Space Administration</u>		
Passed-through the Stennis Space Center		
Aerospace Education Services Program	43.001	<u>15,000</u>
Total National Aeronautics and Space Administration		<u>15,000</u>
<u>National Science Foundation</u>		
Direct Program:		
Education and Human Resources	47.076	<u>625,683</u>
Total National Science Foundation		<u>625,683</u>
<u>U. S. Department of Education</u>		
Direct program:		
Twenty-first Century Community Learning Centers	84.287	190,619
Fund for the Improvement of Education	84.215	233,317
Advanced Placement Program	84.330	<u>236,809</u>
Total Direct Programs		<u>660,745</u>
Passed-through State Junior College Board:		
Adult Education-State Grant Program	84.002	<u>432,980</u>
Total Pass-through State Junior College Board		<u>432,980</u>
Passed-through Mississippi Department of Education:		
Title I Grants to Local Educational Agencies	84.010	18,938,172
Vocational Education – Basic Grants to States	84.048	452,122
Safe and drug free schools and communities national programs	84.184	21,029

Safe and Drug-Free Schools and Communities-State Grants	84.186	282,777
Education for Homeless Children and Youth	84.196	91,201
Education Technology Grant	84.318	237,720
Comprehensive School Reform Demonstration	84.332	121,502
Grants for state assessments and related activities	84.369	192,195
Hurricane Education Recovery Act Programs	84.938	4,845,255
Total		<u>25,181,973</u>
Special Education Cluster:		
Special Education – Grants to States	84.027	9,380,363
Special Education – Preschool Grants	84.173	89,896
Total Special Education Cluster		<u>9,470,259</u>
Total passed-through MDE		<u>34,652,232</u>
Total U. S. Department of Education		<u>35,745,957</u>
<u>Department of Health and Human Services</u>		
Direct Program:		
Health Resources & Services Grant	93.888	459,089
Total Department of Health & Human Services		<u>459,089</u>
<u>Corporation for National & Community Service</u>		
Direct Program:		
Learn and Serve America – School and Community Based Programs	94.004	20,155
Total Corporation for National & Community Service		<u>20,155</u>
<u>U. S. Department of Homeland Security</u>		
Passed-through MS Emergency Management Agency		
State Domestic Preparedness Equipment Support	97.004	2,582
Total U. S. Department of Homeland Security		<u>2,582</u>
TOTAL FOR ALL FEDERAL AWARDS		<u>\$52,493,811</u>

NOTES TO SCHEDULE

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

Jackson Public 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	\$ 185,627,946	149,777,963	6,495,715	14,415,910	14,938,358
Other	135,899,242	19,329,227	2,754,492	246,530	113,568,993
Total	\$ 321,527,188	169,107,190	9,250,207	14,662,440	128,507,351
Total number of students *	30,656				
Cost per student \$	10,488	5,516	302	478	4,192

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

*Includes the number of students reported on the ADA report submission for month 9, which is the final submission for the fiscal year.

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

JACKSON PUBLIC SCHOOL DISTRICT

REPORTS ON COMPLIANCE AND INTERNAL CONTROL



LYLES AND SINCLAIR

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CERTIFIED PUBLIC ACCOUNTANTS

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MARY LYLES, CPA, MPA

TRACEY SINCLAIR, CPA

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

Superintendent and School Board
Jackson Public School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Jackson Public School District as of and for the year ended June 30, 2006, which collectively comprise the Jackson Public School District's basic financial statements and have issued our report thereon dated May 27, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the school district's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. 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. Reportable conditions are described in the Schedule of Findings and Questioned Costs as Finding 06-1 through 06-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described in the findings referred to above, we consider Finding 06-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the school district in a separate letter dated May 27, 2008, 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.

Lyles & Sinclair, PLLC

Lyles and Sinclair, PLLC

May 27, 2008



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MARY LYLES, CPA, MPA

TRACEY SINCLAIR, CPA

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
Jackson Public School District

Compliance

We have audited the compliance of the Jackson Public 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 Findings 06-3 through 06-5 in the Schedule of Findings and Questioned Costs, the school district did not comply with requirements regarding eligibility, period of availability, and reporting that are applicable to its Hurricane Education Recovery Act Programs - Emergency Impact Aid. 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 paragraph, the Jackson Public School District complied, in all material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the Jackson Public 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 the 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 District's ability to administer a major federal program in accordance with the applicable requirements of

laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 06-3 through 06-5.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants caused by error or fraud 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 material weaknesses. We did not note any matters involving internal control over compliance and its operation that we consider to be material weaknesses.

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


Lyles and Sinclair, PLLC

May 27, 2008

JACKSON PUBLIC SCHOOL DISTRICT

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



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TRACEY SINCLAIR, CPA

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

Superintendent and School Board
Jackson Public School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Jackson Public School District as of and for the year ended June 30, 2006, which collectively comprise Jackson Public School District's basic financial statements and have issued our report thereon dated May 27, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$69,396 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

We noted funds with no budget amount that had expenditures for our audit period. Section 37-61-9, Miss. Code Ann. (1972) requires the local school board with the assistance of the superintendent to prepare budgets for each fund. The district's budget process is not in compliance with state law.

Recommendation

We recommend the district ascertain all funds are budgeted before any expenditures are made.

School District's Response

Activity funds are budgeted together under fund 1150-Activity Fund General which was approved by the Board. The other budgets are accounts with cash balances. No revenue was budgeted because the revenue had been received in the prior year and no more was expected. In order to expend the cash and close some accounts, expenditure budgets were established. Funds 3030, 3903 both had interest income posted through journal entries due to prior period adjustments. Fund 2996 was submitted to the board on July 17, 2006 and fund 3903 was approved by the board on September 18, 2006.

2. Finding
We noted the following on sixteenth section rentals:

- A. Companies where rental income was not received.
- B. Receipts were not deposited timely.

Mississippi Code Section 29-3-57 requires that lease payments in default in excess of sixty days be terminated or that the board of education has found extenuating circumstances for not terminating. An effective internal control system dictates that deposits be made at least weekly. The consultant sends out 30 day and 60 day notices when payment has not been received; however, some companies do not respond. Also, the consultant responsible for making the deposits for the district failed to make them timely. The district may be in violation of the state statute and the untimely deposits may cause income to be misstated.

Recommendation

We recommend the district ascertain that lease payments that are in default in excess of sixty days are terminated or indicate that the board of education found extenuating circumstances present and are trying to resolve them. We also, recommend that the district emphasize the importance of timely deposits to the consultant.

School District's Response

The District will comply with this recommendation. We have already had conversations with our consultant regarding timely monitoring of delinquent leases.

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 ensure that corrective action has been taken.

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


Lyles and Sinclair, PLLC

May 27, 2008

JACKSON PUBLIC SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JACKSON PUBLIC SCHOOL DISTRICT

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

Section 1: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

- | | | |
|-----|--|--------------------|
| 4. | Type of auditor's report issued on compliance for major federal programs: | |
| | Hurricane Education Recovery Act Programs | <u>Qualified</u> |
| | All Others | <u>Unqualified</u> |
| 5. | Internal control over major programs: | |
| a. | Material weakness(es) identified? | <u>No</u> |
| b. | Reportable condition(s) identified that are not considered to be material weaknesses? | <u>Yes</u> |
| 6. | Any audit finding(s) reported as required by section __.510(a) of OMB Circular A-133? | <u>Yes</u> |
| 7. | Federal programs identified as major programs: | |
| a. | Title I Grants to Local Educational Agencies, CFDA # 84.010 | |
| b. | Cluster: Special Education Cluster | |
| | CFDA #: 84.027 | |
| | CFDA #: 84.173 | |
| c. | Hurricane Education Recovery Act Programs, CFDA # 84.938 | |
| 8. | The dollar threshold used to distinguish between Type A and Type B programs: | <u>\$1,574,814</u> |
| 9. | Auditee qualified as a low-risk auditee? | <u>No</u> |
| 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? | <u>Yes</u> |

Section 2: Financial Statements Findings

Material Weaknesses

JACKSON PUBLIC SCHOOL DISTRICT

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

06-1. Finding

During our audit of the Jackson Public School District, we noted that some of the district's supporting schedules did not agree with the financial statement balances. An effective internal control system requires proper documentation of all financial transactions to provide an adequate audit trail. It appears that human error in not verifying agreement with the financial statements caused these differences. The supporting schedules are not in agreement with the financial statement balances.

Recommendation

We recommend the district ascertain in preparation of their schedules that they are in agreement with the financial statements.

Views of responsible officials and planned corrective action

The schedules in question were manual schedules requested by the auditors. The differences were the result of the staff not understanding what the auditors were trying to achieve. Since the requests were not part of our normal work routine, incomplete information was mistakenly provided to the auditors. Care will be taken in the future to gain a better understanding of what information the auditors are expecting.

06-2. Finding

We noted the district was unable to locate signed authorization for withholdings for several employees. An effective internal control system requires proper authorization of all payroll withholdings. Withholding amounts may be unauthorized and requested to be repaid by the employee.

Recommendation

We recommend the district maintain support for all withholdings from the employees payroll.

Views of responsible officials and planned corrective action

Deduction authorization forms are filed three different ways: by social security number, by name, or by work location - based on the most convenient way to retrieve the information. As employees have name changes or location reassignments, the deduction authorization forms are not updated. Management is evaluating various options as to how to uniformly file all deduction authorization forms for the most cost effective and productive method for filing and retrieval of all authorization forms.

Section 3: Federal Awards Findings and Questioned Costs

06-3. Finding

Program: Hurricane Education Recovery Act Programs - Emergency Impact Aid; CFDA #84.938; U. S. Department of Education; passed-through the Mississippi Department of Education

Compliance requirement: Eligibility

During our audit of the Jackson Public School District, we noted that as the result of an OIG audit, the district has been instructed to repay \$173,120.00 for students that did not meet the Department of Education's definition of displaced. The Compliance Supplement outlines the program guidelines and requirements. Errors were made in reporting data related to the program. The district now has questioned costs due to noncompliance with program requirements.

Recommendation

We recommend the district establish procedures to ensure compliance with federal program requirements.

Views of responsible officials and planned corrective action

JACKSON PUBLIC SCHOOL DISTRICT

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

The District will ensure that personnel responsible for these activities will cross check information to ensure compliance with grant guidelines.

06-4. Finding

Program: Hurricane Education Recovery Act Programs - Emergency Impact Aid; CFDA #84.938; U. S. Department of Education; passed-through the Mississippi Department of Education

Compliance Requirement: Period of Availability

During our audit of the Jackson Public School District, we noted that there was a cash balance at June 30, 2007 of nearly \$16,000.00 on the books. The grant called for all obligations to have been liquidated by October 29, 2006. A-133 Compliance Supplement outlines the period of availability for program funds. The district stated they had teachers hired under Hurricane Katrina that were being paid from this fund and had been moved but they hadn't moved the money from the books yet. It gives the appearance that district paid expenditures from this fund past the period of availability.

Recommendation

We recommend the district establish procedures to ensure compliance with federal program requirements.

Views of responsible officials and planned corrective action

The teachers that were initially hired under the grant were board approved to be paid from District Maintenance effective July 1, 2007. Due to the processing time of paperwork that was needed to transfer the salary and fringe benefits expense at the end of the fiscal year from grant to the District Maintenance fund, it gave the appearance that funds were being spend after the grant end date. These expenditures were moved by journal entry to District Maintenance. No funds were expended after the grant end date.

06-5. Finding

Program: Hurricane Education Recovery Act Programs - Emergency Impact Aid; CFDA #84.938; U. S. Department of Education; passed-through the Mississippi Department of Education

Compliance Requirement: Reporting

During our audit of the Jackson Public School District, we noted that as the result of an OIG audit, the district has been instructed to repay \$72,000.00 for students that were counted twice in the same quarter and for unsupportable final displaced student counts for all four quarters. The Compliance Supplement outlines the program guidelines and requirements. Errors were made in reporting data related to the program. The district now has questioned costs due to noncompliance with program requirements.

Recommendation

We recommend the district establish procedures to ensure compliance with federal program requirements.

Views of responsible officials and planned corrective action

The District will ensure that personnel responsible for these activities will cross check information to ensure compliance with grant guidelines.

JACKSON PUBLIC SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Findings no. 05-01 and 05-02:

There were two findings reported for recording investment and banking transactions.

Response:

These were also findings in the June 30, 2004 audit. As the result of the lack of adequate management supervision, the recording and reconciling of investment and bank reconciliations fell unacceptably behind. In March 2004, we made a personnel change hiring a new Accounting supervisor. Her first assignment was to get all reconciliations up to date. As she began this process, she found that investment records for a capital project account were incomplete. After she was able to recreate all the investment records, she began the process of ensuring that all transactions were properly recorded. These investments were in three different accounts and were being managed by a financial advisor. The financial advisor moved funds within the three accounts to maximize return to the District while maintaining an acceptable level of liquidity. Because we were not receiving all of the statements for all three accounts, some of the transactions were not being posted to our books.

Also compounding this problem was that annual audit reports were not being issued in a timely manner. The June 2003 audit contract was not awarded until June 21, 2004. The final report was not issued until June 13, 2005. In June 2004, a new set of auditors was awarded the annual audit for 2004 and 2005, however they were not able to start their audit until the 2003 was substantially complete. The 2004 audit was issued September 30, 2005. By that time, the June 30, 2005 books were already closed. Therefore, proposed audit adjustments could only be made as prior period adjustments, which is what we did.

By the time all necessary entries were determined, some entries had to be recorded as prior year transactions. Although the bank reconciliations were being reconciled, reconciling items were not being posted on a timely basis. As a result of these findings, a procedure was put in place where all the bank statements and investment accounts for a given month are to be reconciled and all reconciling items are to be recorded within forty-five days of the statement date. Beginning in August 2004, bank and investment account reconciliation statuses are reported to the Deputy Superintendent on a monthly basis. While the finding was factual for the early part of the 2004-05 fiscal, by November 2004, the account department began to achieve their goal of having all bank accounts reconciled and reconciling items posted within forty-five days. At June 30, 2005, all transactions were being properly and timely recorded.

Finding no. 05-03:

Qualified Zone Academy Bonds (QZAB) transactions are not being recorded in accordance with the Financial Accounting Manual for Mississippi Public School Districts.

Response:

This was also a finding in the 2004 audit. In July 2000, the District borrowed \$2,500,000 under the QZAB program. The District recorded a liability for this loan, as we do for all debt. When annual payments to retire this debt were made, we reduced our debt liability, as we do for other loans. The 2004 auditors decided that it was a reportable finding but did not report the finding to our staff until after the 2005 books had been closed thus creating the repeated finding. We have

corrected this finding by establishing a sinking fund for the purpose of the debt retirement. A sinking fund is an asset maintained by an outside fiscal agent. It is an asset on the balance sheet that will be used to retire the debt at its final maturity in July 2112.

Finding no. 05-04:

Schools activity fund receipts were not deposited in a timely manner.

Response:

The auditors reviewed the length of time between the times the office manager receipted the teacher until it was deposited in the bank. Of the five schools tested, three were found to be violating Board Policy, which requires deposits to be made the same day they are received. In light of this finding, the accounting department will start testing for compliance with Board policy. When exceptions are noted, we will notify appropriate school officials. In addition, we will continue to stress the same day deposit requirement during every training session with principals and office managers.