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Jefferson County School District
Audited Financial Statements
June 30, 2006



J E Fortenberry, III, PC
Certified Public Accountant

**Jefferson County School District
TABLE OF CONTENTS**

	PAGE #
FINANCIAL AUDIT REPORT	
Independent Auditor's Report on the Financial Statements and Supplemental Information	5
Management's Discussion and Analysis	8
FINANCIAL STATEMENTS	
Exhibit A -Government-Wide Statement of Net Assets	18
Exhibit B -Government-Wide Statement of Activities	19
Exhibit C-Balance Sheet - Governmental Funds	20
Exhibit C-1-Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets	21
Exhibit D-Statement of Revenues, Expenditures and Changes in Fund Balances	22
Exhibit D-1-Reconciliation of Governmental Funds Statement of Revenues Expenditures and Changes in Fund Balances to the Statement of Activities	23
Exhibit E-Statement of Net Assets - Fiduciary Funds	24
Notes to the Financial Statements	26
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedules	43
Notes to the Required Supplementary Information	46
SUPPLEMENTAL INFORMATION	
Schedule 1- Schedule of Expenditures of Federal Awards	48
Schedule 2- Schedule of Instructional, Administrative, and Other Expenses - Governmental Funds	49
INTERNAL CONTROL AND COMPLIANCE REPORTS	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Basic Financial Statements Performed in Accordance with "Government Auditing Standards" ..	51
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	52
Independent Auditor's Report on Compliance with State Laws and Regulations	54
FINDINGS, CORRECTIVE ACTION PLAN AND AUDIT FOLLOW-UP	
Schedule of Findings and Questioned Costs	57

JEFFERSON COUNTY SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

INDEPENDENT AUDITOR'S REPORT
ON THE BASIC FINANCIAL STATEMENTS
ACCOMPANIED BY REQUIRED SUPPLEMENTARY
INFORMATION AND SUPPLEMENTAL INFORMATION

J.E. FORTENBERRY, III, PC
Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT ON THE BASIC FINANCIAL STATEMENTS
ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION AND
SUPPLEMENTARY INFORMATION

Superintendent and School Board
Jefferson County School District

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

I conducted my 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 I 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. I believe that my audit provides a reasonable basis for my opinions.

In my 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 Jefferson County School District at 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*, I have also issued my report dated May 1, 2007 on my consideration of the Jefferson County School District's internal control over financial reporting and my 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 my 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 my audit.

The Management's Discussion and Analysis on pages (8) through (16) and the Budgetary Comparison Schedule and corresponding notes on pages (43) through (46) are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I 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, I did not audit the information and express no opinion on it.

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



J.E. Fortenberry, III, PC
May 1, 2007

Certified Public Accountant

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

FINANCIAL HIGHLIGHTS

- Total net assets increased \$663,155, which represents a 17% increase from fiscal year 2005. This increase in net assets is primarily due to the following: 1) capital outlays of \$253,928 during the fiscal year were not reported as expenses in the Statement of Activities but were capitalized on the Statement of Net Assets, and 2) repayment of debt principal in the amount of \$322,371 was not reported as an expense in the Statement of Activities but as a reduction of long-term liabilities on the Statement of Net Assets, and 3) federal revenue of approximately \$318,000 under the Displaced Student Grant which resulted from Hurricane Katrina.
- General revenues account for \$9,094,700 in revenue, or 70% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$3,835,367, or 30% of total revenues.
- The District had \$12,266,912 in expenses; only \$3,835,367 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$9,094,700 were adequate to provide for these programs.
- Among major funds, the General Fund had \$8,880,600 in revenues and \$7,606,168 in expenditures. After net other financing uses of \$819,508, the net change in fund balance for the General Fund was an increase of \$454,924 from the previous fiscal year. This increase is due primarily to federal revenue of approximately \$318,000 under the Displaced Student Grant, which resulted from Hurricane Katrina. Salary related expenditures normally incurred in the General Fund were reported in the Displaced Student Grant Fund and federal sources were received to cover those expenditures.
- Capital assets, net of accumulated depreciation, increased by \$60,424.
- Long-term debt decreased by \$318,080 due primarily to principal payments made during the fiscal year on existing long-term debt.

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

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$4,518,585 as of June 30, 2006.

The district's net assets are comprised of 1) net assets invested in capital assets, net of related debt, 2) restricted net assets and 3) unrestricted net assets. \$1,513,195 of the District's net assets (33%) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment and leased property under capital leases), 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. \$1,143,273 of the District's net assets (25%) reflects its restricted net assets. A portion of the restricted net assets is expendable for school based activities, debt service, capital improvements, forestry improvements and unemployment benefits. The remaining portion of the restricted net assets is nonexpendable for 16th section investment purposes. \$1,862,117 of the District's net assets (42%) reflects its unrestricted net assets.

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

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

	<u>Net Assets</u>		<u>Percentage</u>
	<u>June 30, 2006</u>	<u>June 30, 2005</u>	<u>Change</u>
Current assets	\$ 4,089,178	\$ 3,804,228	7.5 %
Other assets	329,632	291,499	13.1 %
Capital assets, net	<u>3,335,417</u>	<u>3,274,993</u>	1.8 %
Total assets	<u>7,754,227</u>	<u>7,370,720</u>	5.2 %
Current liabilities	194,755	156,323	24.6 %
Long-term debt outstanding	<u>3,040,887</u>	<u>3,358,967</u>	(9.5) %
Total liabilities	<u>3,235,642</u>	<u>3,515,290</u>	(8.0) %
Net assets:			
Invested in capital assets, net of related debt	1,513,195	1,200,400	26.1 %
Restricted	1,143,273	1,422,339	(19.6) %
Unrestricted	<u>1,862,117</u>	<u>1,232,691</u>	51.1 %
Total net assets	<u>\$ 4,518,585</u>	<u>3,855,430</u>	17.2 %

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

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

- Long-term debt outstanding decreased from the previous fiscal year due primarily to principal payments made during the fiscal year on existing long-term debt.
- Net assets invested in capital assets, net of related debt, increased from the previous fiscal year due primarily to the purchase of capital assets during the fiscal year and the reduction of long-term debt related to the capital assets.
- Restricted net assets decreased from the previous fiscal year due primarily to a decrease in amounts restricted for school based activities and debt service.
- Unrestricted net assets increased from the previous fiscal year due primarily to the increase in the fund balance of the General Fund and 16th Section Interest Fund and the decrease in non-capital related debt.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2006 were \$12,930,067. The total cost of all programs and services was \$12,266,912. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2006 and comparative data for the fiscal year ended June 30, 2005.

	<u>Change in Net Assets</u>		<u>Percentage</u>
	<u>June 30, 2006</u>	<u>June 30, 2005</u>	<u>Change</u>
Revenues:			
<u>Program revenues:</u>			
Charges for services	\$ 199,329	\$ 313,267	(36.4) %
Operating grants and contributions	3,559,814	2,936,880	21.2 %
Capital grants and contributions	76,224	83,396	(8.6) %
<u>General revenues:</u>			
Property taxes	1,846,308	1,733,903	6.5 %
Grants and contributions not restricted	7,090,789	7,035,311	0.8 %
Other	157,603	261,398	(39.7) %
Total revenues	<u>12,930,067</u>	<u>12,364,155</u>	4.6 %
Expenses:			
Instruction	6,754,472	6,288,035	7.4 %
Support services	4,537,793	3,734,151	21.5 %
Non-instructional	792,053	1,385,429	(42.8) %
Sixteenth section	25,070	33,177	(24.4) %
Interest on long-term liabilities	157,524	175,435	(10.2) %
Total expenses	<u>12,266,912</u>	<u>11,616,227</u>	5.6 %

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

Increase (Decrease) in net assets	663,155	747,928	(11.3) %
Net Assets, July 1	3,855,430	3,121,533	23.5 %
Prior Period Adjustments	-	(14,031)	
Net Assets, June 30	<u>\$ 4,518,585</u>	<u>\$ 3,855,430</u>	17.2 %

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

- Program revenues increased from the previous fiscal year due primarily to an increase in operating grants and contributions. As a result of Hurricane Katrina, the District was entitled to approximately \$318,000 in Displaced Student Grant funds. The District also received approximately \$125,000 more in Special Education funds and approximately \$145,000 more in Project Core funds as compared with the previous fiscal year.
- Instruction expenses increased from the previous fiscal year due primarily to the 8% increase in teacher salaries.
- Support services expenses increased from the previous fiscal year due primarily to the 8% increase in teacher salaries and the purchase of new school buses during the fiscal year.

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

	<u>2006</u>		<u>2005</u>	
	<u>Total Expenses</u>	<u>Net (Expense) Revenue</u>	<u>Total Expenses</u>	<u>Net (Expense) Revenue</u>
Instruction	\$ 6,754,472	\$ (4,999,478)	\$ 6,288,035	\$ (5,622,242)
Support services	4,537,793	(3,306,269)	3,734,151	(2,092,017)
Non-instructional	792,053	(3,455)	1,385,429	(538,413)
Sixteenth section	25,070	35,181	33,177	145,423
Interest on long-term liabilities	157,524	(157,524)	175,435	(175,435)
Total expenses	<u>\$ 12,266,912</u>	<u>\$ (8,431,545)</u>	<u>\$ 11,616,227</u>	<u>\$ (8,282,684)</u>

- The net cost of governmental activities for fiscal year 2006 in the amount of \$8,431,545 was financed by general revenue, which is made up of primarily property taxes of \$1,846,308 and state revenue of \$6,972,072.

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

- Investment earnings accounted for \$93,323 of funding.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed fiscal year June 30, 2006, its governmental funds reported a combined fund balance of \$4,295,061. The net change in fund balance for the fiscal year was an increase of \$322,216 due primarily to federal revenue entitled to the District under the Displaced Student Grant which resulted from Hurricane Katrina and sixteenth section sources generated during the fiscal year. \$3,816,038, or 89%, of the fund balance is reported by fund type in the unreserved, undesignated section of the Governmental Funds Balance Sheet. The portion of the fund balance reported in the General Fund is available for spending at the District's discretion. The portion of the fund balance reported in the Special Revenue Funds will be used for school based activities. The unreserved, undesignated portion of the fund balance reported in the Permanent Funds is interest earned on sixteenth section investments that was not transferred to the Sixteenth Section Interest Funds. The remaining fund balance of \$479,023, or 11%, is reserved or designated to indicate that it is not available for spending because it has already been committed. This portion of the fund balance is reserved for inventory, unemployment benefits, forestry improvements, capital project purposes, debt service purposes and permanent fund purposes.

The General Fund is the principal operating fund of the District. The net change in fund balance for the General Fund for the fiscal year was an increase of \$454,924 due primarily to federal revenue entitled to the District under the Displaced Student Grant which resulted from Hurricane Katrina. The net change in fund balance for the 16th Section Interest Fund for the fiscal year was an increase of \$147,725 due to revenue generated during the fiscal year from the sale of timber, sixteenth section leases and earnings on investments. The net change in fund balance for the 16th Section Permanent Fund for the fiscal year was an increase of \$5,763. The net change in fund balance for the Other Governmental Funds for the fiscal year was a decrease of \$286,196 due primarily to a decrease in fund balance of the EEF Buildings and Buses Fund resulting from the purchase of new school buses during the fiscal year.

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

BUDGETARY HIGHLIGHTS

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

- Budgeted amounts for instruction and support services expenditures in the General Fund were increased due primarily to the increase in teacher salaries and the purchase of new school buses during the fiscal year.
- Budget revisions were made to reflect revenue from federal sources and instruction expenditures in the Displaced Student Grant Fund during the fiscal year. Revenue and expenditures related to this grant were a result of Hurricane Katrina and were not included in the original budget.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2006, the District's total capital assets, before depreciation, were \$6,778,627, including land, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment and leased property under capital leases. This amount represents a gross increase of \$122,753 from the previous year. During the fiscal year, the District purchased new school buses and various items of furniture and equipment. The District also disposed of various items of transportation vehicles during the fiscal year. Total depreciation expense for the year was \$176,786. Total accumulated depreciation as of June 30, 2006 was \$3,443,210, resulting in total net capital assets of \$3,335,417.

	<u>Capital Assets, Net of Depreciation</u>		<u>Percentage Change</u>
	<u>2006</u>	<u>2005</u>	
Land	\$ 19,828	\$ 19,828	0.0 %
Buildings	1,751,137	1,780,966	(1.7) %
Building improvements	662,704	720,330	(8.0) %
Improvements other than buildings	104,273	79,453	(31.2) %
Mobile equipment	397,754	238,786	66.6 %
Furniture and equipment	67,556	60,425	11.8 %
Leased property under capital leases	332,165	375,205	(11.5) %
Total	<u>\$ 3,335,417</u>	<u>\$ 3,274,993</u>	1.8 %

Debt Administration. At June 30, 2006, the District had \$3,040,887 in general and limited obligation bonds and other long-term debt outstanding, of which \$334,623 is due within one

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

year. During the fiscal year, the District made principal payments in the amount of \$322,371 on existing long-term debt.

	<u>Outstanding Debt</u>		<u>Percentage Change</u>
	<u>2006</u>	<u>2005</u>	
General obligation bonds payable	\$ 230,000	\$ 280,000	(17.9) %
Limited obligation bonds payable	2,295,000	2,435,000	(5.7) %
Three mill ten year notes payable	153,000	224,000	(31.7) %
Obligations under capital leases	291,722	353,093	(17.4) %
Compensated absences payable	<u>71,165</u>	<u>66,874</u>	6.4 %
Total	<u>\$ 3,040,887</u>	<u>\$ 3,358,967</u>	(9.5) %

CURRENT ISSUES

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

The District has committed itself to financial excellence for many years. The millage rate has not increased or decreased significantly over the past several years. The District's system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Jefferson County School District, P. O. Box 157, Fayette, MS 39069.

FINANCIAL STATEMENTS

JEFFERSON COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

	<u>Governmental Activities</u>
ASSETS	
Assets:	
<i>Cash and other deposits</i>	\$ 3,544,694
<i>Due from other governments</i>	527,313
<i>Inventories and prepaid items</i>	17,171
<i>Restricted Assets</i>	329,632
<i>Capital assets, not being depreciated</i>	
<i>Land</i>	19,828
<i>Capital assets, net of accumulated depreciation</i>	
<i>Buildings</i>	1,751,137
<i>Building improvements</i>	662,704
<i>Improvements other than buildings</i>	104,273
<i>Mobile equipment</i>	397,754
<i>Furniture and equipment</i>	67,556
<i>Leased property under capital leases</i>	332,165
Total Assets	<u>7,754,227</u>
Liabilities	
<i>Accounts payable and accrued liabilities</i>	89,884
<i>Deferred revenue</i>	60,004
<i>Interest payable on long-term liabilities</i>	44,867
Long-term liabilities (due within one year):	
<i>Capital related liabilities</i>	259,623
<i>Non-capital related liabilities</i>	78,558
Long-term liabilities (due beyond one year)	
<i>Capital related liabilities</i>	1,562,599
<i>Non-capital related liabilities</i>	1,140,107
Total Liabilities	<u>3,235,642</u>
NET ASSETS	
<i>Invested in Capital Assets, Net of Related Debt</i>	1,513,195
Restricted For:	
<i>School Based Activities</i>	543,960
<i>Debt Service</i>	197,588
<i>Capital Improvements</i>	77,073
<i>Forestry Improvements</i>	83,913
<i>Unemployment Benefits</i>	40,982
<i>Sixteenth Section</i>	
<i>Expendable</i>	12,566
<i>Nonexpendable</i>	187,191
<i>Unrestricted</i>	1,862,117
Total Net Assets	<u>\$ 4,518,585</u>

The accompanying notes are an integral part of this statement.

JEFFERSON COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental Activities:					Governmental Activities
Instruction	6,754,472	109,041	1,599,717	46,236	(4,999,478)
Support services	4,537,793	--	1,201,536	29,988	(3,306,269)
Noninstructional services	792,053	30,037	758,561	--	(3,455)
Sixteenth section	25,070	60,251	--	--	35,181
Interest on long-term liabilities	157,524	--	--	--	(157,524)
Total Primary Government	<u>\$ 12,266,912</u>	<u>\$ 199,329</u>	<u>\$ 3,559,814</u>	<u>\$ 76,224</u>	<u>(8,431,545)</u>
General Revenues:					
Taxes:					
General purpose levies					1,792,178
Debt purpose levies					54,130
Unrestricted grants and contributions:					
State					6,972,072
Federal					118,717
Unrestricted investment earnings					93,323
Sixteenth section sources					50,152
Other					14,128
Total general revenues					<u>9,094,700</u>
Change in Net Assets					<u>663,155</u>
Net Assets - Beginning					<u>3,855,430</u>
Net Assets - Ending					<u>\$ 4,518,585</u>

The accompanying notes are an integral part of this statement.

JEFFERSON COUNTY SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2006

	General Fund	Displaced Students	Sixteenth Section Interest Fund	Sixteenth Section Permanent Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
<i>Cash and cash equivalents</i>	\$ 2,224,583	\$ --	\$ 474,169	\$ 299,711	\$ 845,942	\$ 3,844,405
<i>Investments</i>	--	--	--	--	29,921	29,921
<i>Due from other governments</i>	101,331	224,937	26,139	--	192,712	545,119
<i>Due from other funds</i>	298,054	--	101,333	1,379	379	401,145
<i>Inventories and prepaid items</i>	--	--	--	--	17,171	17,171
Total Assets	\$ 2,623,968	\$ 224,937	\$ 601,641	\$ 301,090	\$ 1,086,125	\$ 4,837,761
LIABILITIES AND FUND BALANCES						
Liabilities:						
<i>Accounts payable and accrued liabilities</i>	\$ 89,884	\$ --	\$ --	\$ --	\$ --	\$ 89,884
<i>Due to other funds</i>	50	224,937	1,757	101,333	64,735	392,812
<i>Deferred revenue</i>	--	--	--	--	60,004	60,004
Total Liabilities	89,934	224,937	1,757	101,333	124,739	542,700
Fund balances:						
Reserved for:						
<i>Inventory</i>	--	--	--	--	17,171	17,171
<i>Capital projects funds</i>	--	--	--	--	77,073	77,073
<i>Debt service funds</i>	--	--	--	--	197,588	197,588
<i>Permanent funds</i>	--	--	--	187,191	--	187,191
Unreserved, undesignated, reported in:						
<i>General fund</i>	2,534,034	--	--	--	--	2,534,034
<i>Special Revenue funds</i>	--	--	599,884	--	669,554	1,269,438
<i>Permanent funds</i>	--	--	--	12,566	--	12,566
Total Fund Balances	2,534,034	--	599,884	199,757	961,386	4,295,061
Total Liabilities and Fund Balances	\$ 2,623,968	\$ 224,937	\$ 601,641	\$ 301,090	\$ 1,086,125	\$ 4,837,761

The accompanying notes are an integral part of this statement.

JEFFERSON COUNTY SCHOOL DISTRICT
*RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS*
 JUNE 30, 2006

Total fund balances - governmental funds balance sheet	\$ 4,295,061
Amounts reported for governmental activities in the statement of net assets ("SNA") are different because:	
Capital assets used in governmental activities are not reported in the funds.	3,335,417
Payables for long term liabilities which are not due in the current period are not reported in the funds.	(3,040,887)
Payables for bond interest which are not due in the current period are not reported in the funds.	(44,867)
Sixteenth section receivable in the SOA not providing current financial resources are not reported as revenue in the funds.	<u>(26,139)</u>
Net assets of governmental activities - statement of net assets	<u>\$ 4,518,585</u>

The accompanying notes are an integral part of this statement.

JEFFERSON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	General Fund	Displaced Students	Sixteenth Section Interest Fund	Sixteenth Section Permanent Fund	Other Governmental Funds	Total Governmental Funds
Revenue:						
Local sources	\$ 1,987,708	\$ --	\$ 10,765	\$ --	\$ 91,349	\$ 2,089,822
State sources	6,722,182	--	--	--	654,705	7,376,887
Federal sources	170,710	294,437	--	--	2,884,793	3,349,940
Sixteenth section sources	--	--	137,460	5,763	1,797	145,020
Total revenues	<u>8,880,600</u>	<u>294,437</u>	<u>148,225</u>	<u>5,763</u>	<u>3,632,644</u>	<u>12,961,669</u>
Expenditures:						
Instruction	4,452,801	294,437	--	--	2,244,444	6,994,213
Support services	3,153,283	--	--	--	1,207,724	4,361,007
Noninstructional services	84	--	--	--	781,388	781,472
Sixteenth section	--	--	500	--	24,570	25,070
Debt service:						
Principal	--	--	--	--	324,902	324,902
Interest	--	--	--	--	157,524	157,524
Total expenditures	<u>7,606,168</u>	<u>294,437</u>	<u>500</u>	<u>--</u>	<u>4,740,552</u>	<u>12,641,657</u>
Excess (deficiency) of revenues (over) expenditures	1,274,432	--	147,725	5,763	(1,107,908)	320,012
Other financing sources (uses):						
Insurance loss recoveries	3,015	--	--	--	--	3,015
Operating transfers in	791,385	--	--	--	830,496	1,621,881
Operating transfers out	(1,613,097)	--	--	--	(8,784)	(1,621,881)
Other financing uses	(811)	--	--	--	--	(811)
Total other financing sources (uses)	<u>(819,508)</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>821,712</u>	<u>2,204</u>
Net change in fund balance	454,924	--	147,725	5,763	(286,196)	322,216
Fund Balances:						
July 1, 2005	2,079,110	--	452,159	193,994	1,258,163	3,983,426
Increase (decrease) in reserve for inventory	--	--	--	--	(10,581)	(10,581)
June 30, 2006	<u>\$ 2,534,034</u>	<u>\$ --</u>	<u>\$ 599,884</u>	<u>\$ 199,757</u>	<u>\$ 961,386</u>	<u>\$ 4,295,061</u>

The accompanying notes are an integral part of this statement.

JEFFERSON COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds	\$ 322,216
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	253,928
The depreciation of capital assets used in governmental activities is not reported in the funds.	(176,786)
The gain or loss on the sale of capital assets is not reported in the funds.	(16,718)
Sixteenth section receivables in the SOA not providing current financial resources are not reported as revenues in the funds.	(26,139)
Sixteenth section revenue eliminated in modified accrual	(8,478)
Change in inventory is an adjustment to FB in funds but affects EX in SOA	(10,581)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	190,000
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	61,371
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	71,000
(Increase) decrease in accrued interest from beginning of period to end of period	7,633
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	<u>(4,291)</u>
Change in net assets of governmental activities - statement of activities	<u>\$ 663,155</u>

The accompanying notes are an integral part of this statement.

JEFFERSON COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

	<u>Agency Funds</u>
ASSETS	
Assets:	
<i>Cash and other deposits</i>	\$ 573,596
Total Assets	\$ 573,596
LIABILITIES	
Liabilities:	
<i>Accounts Payable & Accrued Liabilities</i>	\$ 531,078
<i>Due to student clubs</i>	34,185
<i>Due to other funds</i>	8,333
Total Liabilities	\$ 573,596

The accompanying notes are an integral part of this statement.

Jefferson County School District

Notes to the Financial Statements
June 30, 2006

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

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:

Jefferson County School District

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

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

C. Measurement Focus and Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting as are the Fiduciary Fund financial statements. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flow takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Program revenues on the Statement of Activities consist primarily of state appropriations and federal awards.

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

The school district reports the following major governmental funds:

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

Displaced Students Fund - This fund is used to assist in meeting the educational needs of students displaced by Hurricanes Katrina and Rita, and to help schools that were closed as a result of the hurricanes to reopen as quickly and effectively as possible.

Sixteenth Section Interest Fund - This is used to collect expendable sixteenth section revenues from various sixteenth section sources. Expendable revenues from this fund are either shared with other school districts or transferred

Jefferson County School District

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

to the district's General Fund per specific statutory board order.

Sixteenth Section 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.

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

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

FIDUCIARY FUNDS

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

D. Account Classifications.

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

Jefferson County School District

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

E. Encumbrances.

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

F. Cash and Cash Equivalents.

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

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

G. Investments.

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

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

H. Inventories and Prepaid Items.

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

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

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

Jefferson County School District

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

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

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

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

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

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

J. Long-term liabilities.

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

Jefferson County School District

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

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

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

L. Equity Classifications.

Government-wide Financial Statements:

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

1. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction 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 indicated that inventories do not represent available spendable resources even though they are a component of net current assets.

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

Jefferson County School District

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

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

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

M. Property Taxes.

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

N. Mississippi Adequate Education Program Revenues.

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

O. Compensated Absences.

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 Jefferson County 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 fiscal year. This Statement requires governments to evaluate major events effecting capital assets to

Jefferson County School District

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

determine whether they are impaired. Such events include physical damage, changes in legal or environmental factors technology changes or obsolescence, changes in the manner or duration of use and construction stoppage. Appropriate note disclosures have been incorporated to comply with the requirements of this standard.

(3) Cash and Cash Equivalents and Investments.

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

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

Investments. Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to invest surplus funds in the types of investments authorized by Section 27-105-33(d) and (e), Miss. Code Ann. (1972). This section permits the following types of investments: (a) certificates of deposits and interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, the principal and interest of which are fully guaranteed by the government or enumerated agency of the United States; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or interest in, and open-end or closed-end any management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration. Investment income on bond funds (Capital Projects), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Amounts less than \$100 can be credited to the General Fund.

Cash and Cash Equivalents.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$3,844,405 and \$573,596, respec-

Jefferson County School District

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

tively. The carrying amount of deposits reported in the government-wide financial statements was: cash and cash equivalents - \$3,544,694 and restricted assets - \$329,632. The restricted assets of \$299,711 represent the cash balance of the Sixteenth Section Permanent Fund which is legally restricted and may not be used for purposes that support the district's programs. The remaining portion of the restricted assets of \$29,921 represent an investment held with Hancock Bank. The bank balance was \$5,023,997.

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 \$5,023,997 was exposed to custodial credit risk.

Investments.

As of June 30, 2006, the district had the following investments in Hancock Bank's Trust Department investment pool.

Investment Type	Maturities (in years)	Fair Value	Rating
Treasury Securities Money Market Fund	NA	\$ 29,921	A
Total Investments		\$ 29,921	

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

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

Custodial Credit Risk - Investments. Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk.. As of June 30, 2006, the district did not have any investments to which this would apply.

Jefferson County School District

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

Concentration of Credit Risk. Disclosures of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2006, the district had the following investments:

<u>Issuer</u>	<u>Fair Value</u>	<u>% of Total Investments</u>
Hancock Horizon Treasury Sec. Money Market C1 A	\$ <u>29,921</u>	100%
	\$ <u>29,921</u>	

(4) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

<u>Governmental Funds:</u>	<u>Due From</u>	<u>Due To</u>
General	\$298,054	\$ 50
Displaced Students	0	224,937
Sixteenth Section Interest	101,333	1,757
Sixteenth Section Permanent	1,379	101,333
Other Governmental	379	64,735
Agency Funds	<u>0</u>	<u>8,333</u>
Total	<u>\$401,145</u>	<u>\$401,145</u>

The purpose of the Due From/To other funds balances was to escrow unemployment revolving fund, to transfer operating cash for food service, to transfer debt service payment and PERS credits. All balances are expected to be repaid within one year from the date of the financial statements.

B. Transfers In/Out.

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$791,385	\$ 1,613,097
Other Governmental Funds	<u>830,496</u>	<u>8,784</u>
Total	<u>\$1,621,881</u>	<u>\$1,621,881</u>

The purpose of the transfers was to move Sixteenth Section revenue and indirect costs to the operating account, to transfer debt service obligations, and to transfer operating funds. All transfers were routine and consistent with the fund making the transfer.

Jefferson County School District

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

(5) Capital Assets.

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

	Balance 7-1-2005	Additions	Retirements	Adjustments	Balance 6-30-2006
<u>Non-depreciable capital assets:</u>					
Land	\$ 19,828	0	0		19,828
Total non-depreciable capital assets	19,828	0	0		19,828
<u>Depreciable capital assets:</u>					
Buildings	3,918,323	0	0		3,918,323
Building Improvements	720,330	0	0		720,330
Improvements other than buildings	161,986	0	0		161,986
Mobile equipment	950,466	226,408	131,175		1,045,699
Furniture and equipment	366,911	27,520			394,431
Leased property under capital leases	518,030				518,030
Total depreciable capital assets	6,636,046	253,928	131,175		6,758,799
<u>Less accumulated depreciation for:</u>					
Buildings	2,137,357	29,829			2,167,186
Building improvements	0	28,813		28,813	57,626
Improvements other than buildings	82,533	3,993		(28,813)	57,713
Mobile equipment	711,680	50,722	114,457		647,945
Furniture and equipment	306,486	20,389			326,875
Leased property under capital leases	142,825	43,040			185,865
Total accumulated depreciation	3,380,881	176,786	114,457	0	3,443,210
Total depreciable capital assets, net	3,255,165	77,142	16,718	0	3,315,589
Governmental activities capital assets, net	\$ 3,274,993	77,142	16,718	0	3,335,417

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$123,750
Support Services	35,357
Non-Instructional	<u>17,679</u>
Total Depreciation Expense	<u>\$176,786</u>

(6) Long-term liabilities.

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

Jefferson County School District

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

	Balance 7-1-2005	Additions	Reductions	Balance 6-30-2006	Amounts due within one year
A. General Obligation Bonds	\$ 280,000		50,000	230,000	50,000
B. Three mill notes payable	224,000		71,000	153,000	75,000
C. Limited Obligation Bonds	2,435,000		140,000	2,295,000	150,000
D. Obligations Under Capital Leases	353,093		61,371	291,722	59,623
E. Compensated Absences	66,874	4,291		71,165	3,558
Total	\$ 3,358,967	4,291	322,371	3,040,887	338,181

A. General Obligation Bonds.

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	Issued	Outstanding
General Obligation Bonds, Series 1990	variable	02-01-90	02-01-10	\$ 700,000	230,000
Total				\$ 700,000	230,000

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

Year Ending June 30	Principal	Interest	Total
2007	\$ 50,000	16,865	66,865
2008	55,000	13,265	68,265
2009	60,000	9,250	69,250
2010	65,000	4,810	69,810
Total	\$ 230,000	44,190	274,190

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 \$230,00. This debt will be repaid out of the Debt Service Fund.

Jefferson County School District

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

B. Three mill notes payable.

Debt currently outstanding is as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Issued</u>	<u>Outstanding</u>
Limited Tax Notes					
Series 1997	5.30%	08-19-97	08-19-07	\$ 630,000	153,000
Total				\$ <u>630,000</u>	<u>153,000</u>

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 75,000	8,109	83,109
2008	<u>78,000</u>	<u>4,134</u>	<u>82,134</u>
Total	\$ <u>153,000</u>	<u>12,243</u>	<u>165,243</u>

This debt will be retired from the Debt Service Fund.

C. Limited obligations bonds.

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Issued</u>	<u>Outstanding</u>
State Aid Capital					
Improvement Bonds	variable	04-21-98	04-01-18	\$ 3,060,000	2,295,000
Total				\$ <u>3,060,000</u>	<u>2,295,000</u>

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 150,000	107,828	257,828
2008	155,000	101,228	256,228
2009	160,000	94,408	254,408
2010	170,000	87,208	257,208
2011-2015	965,000	309,905	1,274,905

Jefferson County School District

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

2016-2018	<u>695,000</u>	<u>67,920</u>	<u>762,920</u>
Total	\$ <u>2,295,000</u>	<u>768,497</u>	<u>3,063,497</u>

The state aid capital improvement bonds are secured by an irrevocable pledge of certain revenues from the State of Mississippi pursuant to the Mississippi Accountability and the Adequate Education Act, Sections 37-151-1 through 37-151-107 of the Mississippi 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.

D. Obligation under capital leases.

The school district has entered into two lease agreements that qualify as capital leases for accounting purposes. Title is held in the school district's name during the lease period and upon payment of the lease obligation.

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	\$ 59,623	11,938	71,561
2008	57,692	9,376	67,068
2009	60,265	6,803	67,068
2010	38,692	4,115	42,807
2011-2015	<u>75,450</u>	<u>42,213</u>	<u>117,663</u>
Total	\$ <u>291,722</u>	<u>74,445</u>	<u>366,167</u>

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

E. Compensated absences payable.

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

Jefferson County School District

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

(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 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 \$701,541, \$662,481, and \$645,341, respectively, which equaled the required contributions for each year.

(8) Sixteenth Section Lands.

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

Year Ending June 30	Amount
2007	\$ 87,968
2008	29,397
2009	1
2010	1
2011	1
2012-2018	7
Total	<u>\$ 117,375</u>

Jefferson County School District

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

(9) 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 Workman's Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Bancorp South Bank in Jackson, Mississippi. 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.

REQUIRED SUPPLEMENTARY INFORMATION

**Jefferson County School District
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2006**

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
	Original	Final		Original to Final	Final to Actual
REVENUES					
Local sources	\$ 2,191,785	\$ 2,281,271	\$ 1,987,708	\$ 89,486	\$ (293,563)
State sources	6,014,974	6,014,974	6,722,182	-	707,208
Federal sources	93,000	188,000	170,710	95,000	(17,290)
Total revenues	8,299,759	8,484,245	8,880,600	184,486	396,355
EXPENDITURES					
Instruction	4,765,131	5,042,916	4,452,801	(277,785)	590,115
Support services	3,106,934	3,304,319	3,153,283	(197,385)	151,036
Noninstructional services	200	350	84	(150)	266
Facilities acquisition and construction	8,500	8,500	-	-	8,500
Total expenditures	7,880,765	8,356,085	7,606,168	(475,320)	749,917
Excess (deficiency) of revenues over expenditures	418,994	128,160	1,274,432	(290,834)	1,146,272
OTHER FINANCING SOURCES (USES)					
Insurance loss recoveries	-	3,015	3,015	3,015	-
Transfers in	1,205,989	1,205,989	791,385	-	(414,604)
Transfers out	(1,000,000)	(1,000,000)	(1,613,097)	-	(613,097)
Other financing uses	-	-	(811)	-	(811)
Total other financing sources and uses	205,989	209,004	(819,508)	3,015	(1,028,512)
Net change in fund balances	624,983	337,164	454,924	(287,819)	117,760
Fund balances:					
July 1, 2005			2,079,110		
June 30, 2006			<u>\$ 2,534,034</u>		

**Jefferson County School District
Budgetary Comparison Schedule
Displaced Student Grant Fund
For the Year Ended June 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variances</u>	
	<u>Original</u>	<u>Final</u>		<u>Original to Final</u>	<u>Final to Actual</u>
REVENUES					
Federal sources	\$ -	\$ 294,437	\$ 294,437	\$ 294,437	\$ -
Total revenues	-	294,437	294,437	294,437	-
EXPENDITURES					
Instruction	-	294,437	294,437	(294,437)	-
Total expenditures	-	294,437	294,437	(294,437)	-
Excess (deficiency) of revenues over expenditures	-	-	-	-	-
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources and uses	-	-	-	-	-
Net change in fund balances	-	-	-	-	-
Fund balances:					
July 1, 2005			-		
June 30, 2006			\$ -		

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

**Jefferson County School District
Budgetary Comparison Schedule
16th Section Interest Fund
For the Year Ended June 30, 2006**

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
	Original	Final		Original to Final	Final to Actual
REVENUES					
Local sources	\$ 2,880	\$ 2,880	\$ 10,765	\$ -	\$ 7,885
Sixteenth section sources	528,078	528,078	137,460	-	(390,618)
Total revenues	530,958	530,958	148,225	-	(382,733)
EXPENDITURES					
Sixteenth section	-	500	500	(500)	-
Total expenditures	-	500	500	(500)	-
Excess (deficiency) of revenues over expenditures	530,958	530,458	147,725	(500)	(382,733)
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	-
Transfers out	(500,000)	(500,000)	-	-	500,000
Total other financing sources and uses	(500,000)	(500,000)	-	-	500,000
Net change in fund balances	30,958	30,458	147,725	(500)	117,267
Fund balances:					
July 1, 2005			452,159		
June 30, 2006			<u>\$ 599,884</u>		

Jefferson County School District

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

Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(2) Budget amendments and revisions.

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

SUPPLEMENTAL INFORMATION

Jefferson County School District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2006

Schedule 1

FEDERAL GRANTOR PASS-THROUGH GRANTOR PROGRAM TITLE	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U. S. DEPARTMENT OF AGRICULTURE</u>		
Passed-through the Mississippi Department of Education:		
Non-cash assistance:		
Food Donation	10.550	\$44,852
Child Nutrition Cluster:		
School Breakfast Program	10.553	209,594
National School Lunch Program	10.555	491,798
Summer Food Service Program for Children	10.559	7,971
Total Child Nutrition cluster		<u>709,363</u>
Total passed-through the MDE		<u>709,363</u>
TOTAL U. S. DEPARTMENT OF AGRICULTURE		<u>754,215</u>
<u>U. S. DEPARTMENT OF DEFENSE</u>		
Direct Program:		
Reserve Officers' Training Corps	12.xxx	51,993
Total Other Federal Assistance		<u>51,993</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	38,127
Total Federal Communication Commission		<u>38,127</u>
<u>U. S. DEPARTMENT OF EDUCATION/</u>		
Passed-through the Mississippi Department of Education:		
Title I Grants to Local Educational Agencies	84.010	1,180,896
Vocational Education-Basic Grants to States	84.048	30,534
Safe and drug free schools and communities national program	84.184	16,630
Safe and Drug-Free Schools and Communities - State Grants	84.186	23,748
State Grants for Innovative Programs	84.298	9,268
Rural Education Achievement Programs	84.358	53,859
Early Reading First	84.359	214,782
Improving Teacher Quality-State Grants	84.367	201,466
Hurricane Education Recovery	84.938	318,812
Total		<u>2,049,995</u>
Special Education Cluster:		
Special Education - Grants to States	84.027	453,707
Special Education - Preschool Grants	84.173	21,315
Total Special Education Cluster		<u>475,022</u>
Total passed-through the MDE		<u>2,525,017</u>
TOTAL U. S. DEPARTMENT OF EDUCATION		<u>2,525,017</u>
TOTAL FOR ALL FEDERAL AWARDS		<u>\$3,369,352</u>

Notes to Schedule

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

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

Expenditures	Total	Instruction and Other Instructional	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 9,498,816	7,134,855	652,763	330,074	1,381,124
Other	3,142,841	1,122,775	229,447	2,091	1,788,528
Total	\$ 12,641,657	8,257,630	882,210	332,165	3,169,652
Total number of students *	1,600				
Cost per student	\$ 7,901	5,161	551	208	1,981

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

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

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

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

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

INTERNAL CONTROL AND COMPLIANCE REPORTS

J.E. Fortenberry, III, P.C.

Certified Public Accountant

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

Superintendent and School Board
Jefferson County School District

I have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Jefferson County School District as of and for the year ended June 30, 2006, which collectively comprise Jefferson County School District's basic financial statements and have issued my report thereon dated May 1, 2007. I conducted my 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 my audit, I considered the school district's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I did not note any matters involving internal control over financial reporting and its operation that I consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, I noted a certain immaterial instance of noncompliance or other matters that I have reported to management of the school district in a separate letter dated May 1, 2007, which is included in this report.

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



J.E. Fortenberry, III, PC
May 1, 2007

Certified Public Accountant

AICPA & MSCPA

1929 Spillway Road, Suite B, Brandon, MS 39047, Telephone 601-992-5292

J.E. Fortenberry, III, P.C.

Certified Public Accountant

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

Superintendent and School Board
Jefferson County School District

Compliance

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

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Govern-ment 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 I 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 I considered necessary in the circumstances. I believe my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the school district's compliance with those requirements.

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

Internal Control Over Compliance

The management of the Jefferson County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I 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 my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable

requirements of laws, regulation, 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. I did not note any matters involving internal control over compliance and its operation that I 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.


J.E. Fortenberry, III, PC
May 1, 2007

Certified Public Accountant

J.E. Fortenberry, III, P.C.
Certified Public Accountant

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

Superintendent and School Board
Jefferson County School District

I have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Jefferson County School District as of and for the year ended June 30, 2006, which collectively comprise Jefferson County School District's basic financial statements and have issued my report thereon dated May 1, 2007. I conducted my 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, I 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 my audit and, accordingly, I do not express such an opinion.

The results of my 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 \$33,156.95 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 my audit of the financial statements disclosed the following immaterial instances of noncompliance with other state laws and regulations. My findings and recommendations and your responses are as follows:

1. Finding

The district failed to share sixteenth section revenue with school districts where townships land areas are shared.

Recommendation

The district should comply with Section 29-3-119, Miss. Code Ann. (1972), which requires that sixteenth section revenues be properly divided with school districts sharing land areas within a township(s).

AICPA & MSCPA

1929 Spillway Road, Suite B, Brandon, MS 39047, Telephone 601-992-5292

School District's Response

The recommendation of the auditor has been noted. The district will comply with Section 29-3-119, Miss. Code Ann. (1972), to assure that the revenue from all sixteenth section sources will be properly divided with school districts sharing land areas within a township(s).

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

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



J.E. Fortenberry, III, PC
May 1, 2007

Certified Public Accountant

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Jefferson County School District

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

Section 1: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

- | | | |
|----|---|-------------|
| 4. | Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 5. | Internal control over major programs: | |
| a. | Material weakness(es) identified? | No |
| b. | Reportable condition(s) identified that are not considered to be material weaknesses? | No |
| 6. | Any audit finding(s) reported as required by Section __.510(a) of Circular A-133? | No |
| 7. | Federal programs identified as major programs: | |
| a. | Cluster: Child Nutrition
CFDA # 10.553
CFDA # 10.555
CFDA # 10.559 | |
| b. | Title I - grants to local educational agencies
CFDA # 84.010 | |
| c. | Cluster: Special Education
CFDA # 84.027
CFDA # 84.173 | |
| d. | Hurricane Education Recovery
CFDA # 84.938 | |

- | | | |
|-----|---|-----------|
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | Yes |
| 10. | Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____ .315(b) of OMB Circular A-133? | No |

Section 2: Financial Statement Findings

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

Section 3: Federal Award Findings and Questioned Costs

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