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JONES COUNTY SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2006

JONES COUNTY SCHOOL DISTRICT
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2006

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H. I. Holt, CPA
Founder (1915 - 1997)

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

October 27, 2006

Superintendent and School Board
Jones County School District

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2006, on our consideration of the Jones County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing 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 read in conjunction with this report in considering the results of our audit.

Superintendent and School Board
Jones County School District
Page two

The Management's Discussion and Analysis on pages 4 through 13 and the Budgetary Comparison Schedules and corresponding notes on pages 40 - 43 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Jones 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Holt & Associates PLLC

Holt & Associates, PLLC

October 27, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The discussion and analysis of Jones 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 notes to the basic financial statements and the 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.

The Jones County School District is located in southeast Mississippi. The district is composed of 14 instructional locations, including 8 elementary schools for grades kindergarten to six, 3 middle/high schools for grades seven to twelve, 1 vocational center for grades ten to twelve, 1 gifted center for grades two to six, and 1 alternative school for grades six to twelve. The current enrollment for the district is approximately 8,000, and the district employs approximately 1,100 certified and non-certified workers.

On August 29, 2005, the district suffered significant damage as a result of Hurricane Katrina. At the time of the storm, the district maintained sufficient insurance coverage to pay the costs of the damages to the district's facilities. In addition, the district also qualified for federal Hurricane Katrina disaster assistance grants which assisted in paying regular operational costs, and paying increased costs of displaced students relocating in the school district as a result of the storm. The usage of these disaster assistance grants in paying regular operational costs significantly improved the current assets and net assets of the district.

FINANCIAL HIGHLIGHTS

- Total net assets increased \$10,115,675 in 2006 and \$1,941,166 in 2005, which represents increases of 35.4% and 7.3% respectively.
- General revenues account for \$26,184,287 in 2006 and \$16,119,215 in 2005, or 28.37% and 29.50% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$47,131,812 in 2006 and \$38,437,451 in 2005 or 64.29% and 70.34% of total revenues, respectively.
- The District had \$63,200,424 in 2006 and \$52,705,969 in 2005 in expenses; only \$47,131,812 in 2006 and \$38,437,451 in 2005 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$26,184,287 and \$16,119,215, respectively, were adequate to provide for these programs.

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

- Among major funds, the General Fund had \$46,621,792 in revenues and \$39,545,953 in expenditures in 2006; in 2005 there were \$42,459,460 in revenues and \$40,164,509 in expenditures. The General Fund's fund balance increased \$5,672,120 in 2006, and increased \$1,012,796 in 2005. The current increase was primarily as a result of the effect of federal Hurricane Katrina disaster assistance awards being used to pay regular General Fund operating expenses.
- Capital assets, net of accumulated depreciation, decreased by \$624,581 in 2006, and decreased by \$437,338 in 2005.
- Long-term debt decreased by \$1,212,905 in 2006 and decreased by \$882,625 in 2005.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

The government-wide financial statements can be found on pages 15 - 16 of this report.

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

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 18 and 20 respectively.

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

The basic governmental fund financial statements can be found on pages 17 - 20 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The school district's fiduciary activities are presented in separate Statements of Fiduciary Net Assets on page 21.

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22 - 39 of this report.

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund. This required supplementary information can be found on pages 41 - 44 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and a schedule of instructional, administrative and other expenditures for governmental funds can be found on pages 45 and 46, respectively, of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$38,667,587 as of June 30, 2006 and \$28,551,912 as of June 30, 2005.

By far the largest portion of the District's net assets at June 30, 2006 and 2005 (44.60% and 58.87%) reflects its investment in capital assets (e.g., land, buildings, improvements other than buildings, mobile equipment, furniture and equipment, and construction in progress, less any related debt used to acquire those assets that is still outstanding). The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

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

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

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

	<u>2006</u>	<u>2005</u>	<u>Percentage Change</u>
Current assets	\$ 25,680,466	\$ 15,969,130	61%
Capital assets, net	<u>37,020,732</u>	<u>37,645,313</u>	-2%
Total assets	<u>62,701,198</u>	<u>53,614,443</u>	<u>17%</u>
Current liabilities	4,808,366	4,586,442	5%
Long-term debt outstanding	<u>19,225,245</u>	<u>20,476,089</u>	-6%
Total liabilities	<u>24,033,611</u>	<u>25,062,531</u>	<u>-4%</u>
Net assets:			
Invested in capital assets, net of related debt	17,243,752	16,808,842	3%
Restricted	13,457,124	9,426,105	43%
Unrestricted	<u>7,966,711</u>	<u>2,316,965</u>	<u>244%</u>
Total net assets	<u>\$ 38,667,587</u>	<u>\$ 28,551,912</u>	<u>35%</u>

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

- Federal Hurricane Katrina disaster assistance grants paid a significant portion of regular operational expenses, therefore increasing ending available current assets and unrestricted net assets.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2006 and 2005 were \$73,316,099 and \$54,647,135, respectively. The total cost of all programs and services was \$63,200,424 in 2006 and \$52,705,969 in 2005. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2006 and 2005.

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

	<u>2006</u>	<u>2005</u>	<u>Percentage Change</u>
Revenues:			
Program revenues			
Charges for services	\$ 2,220,199	\$ 2,505,718	-11%
Operating grants and contributions	43,710,297	34,730,418	26%
Capital grants and contributions	1,201,316	1,201,315	0%
General revenues			
Taxes	11,416,106	10,381,102	10%
Grants and contributions not restricted	4,768,726	4,030,242	18%
16th section sources	4,473,431	1,602,341	179%
Insurance Proceeds	5,382,801	-	100%
Other	143,223	105,530	36%
Special revenues	-	90,469	-100%
Total Revenues	<u>73,316,099</u>	<u>54,647,135</u>	<u>34%</u>
Expenses:			
Instruction	41,819,745	32,774,692	28%
Support Services	16,459,644	15,204,188	8%
Non-instructional	3,087,706	2,773,217	11%
16th Section	795,541	765,275	4%
Interest on long-term liabilities	1,037,788	1,188,597	-13%
Total Expenses	<u>63,200,424</u>	<u>52,705,969</u>	<u>20%</u>
Increase in Net Assets	10,115,675	1,941,166	421%
Net Assets, July 1	<u>28,551,912</u>	<u>26,610,746</u>	<u>7%</u>
Net Assets, June 30	<u>\$ 38,667,587</u>	<u>\$ 28,551,912</u>	<u>35%</u>

The school district suffered significant damage as a result on Hurricane Katrina on August 29, 2005. The school district had sufficient insurance coverage to pay the majority of the costs of the damage repairs and additional costs as a result of the storm. Significant insurance proceeds are reflected on the district's financial statements. The school district also qualified for federal Hurricane Katrina disaster assistance grants as a result of the storm. These federal disaster assistance grants were used to pay ordinary operating expenses of the district, thereby resulting in significant increases in current assets and net assets.

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

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

	<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	\$ 41,819,745	\$ 177,827	\$ 32,774,692	\$ 1,523,495
Support Services	16,459,644	(13,249,426)	15,204,188	(13,423,933)
Non-instructional	3,087,706	(2,365,000)	2,773,217	(1,758,095)
Sixteenth Section	795,541	(795,541)	765,275	(765,275)
Interest on long-term liabilities	1,037,788	163,528	1,188,597	155,290
Total expenses	<u>\$ 63,200,424</u>	<u>\$ (16,068,612)</u>	<u>\$ 52,705,969</u>	<u>\$ (14,268,518)</u>

- Net cost of governmental activities in 2006 was \$16,068,612 and in 2005 was \$14,268,518 financed by general revenue, which is made up of primarily property taxes in 2006 and 2005 of \$11,416,106 and \$10,381,102, respectively, and state revenue of \$1,349,569 in 2006 and \$1,336,929 in 2005, and federal revenue of \$2,893,415 in 2006 and \$2,422,059 in 2005, and Sixteenth Section revenue of \$4,473,431 in 2006 and \$1,602,341 in 2005.
- Investment earnings accounted for funding of \$525,742 in 2006 and \$271,254 in 2005.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$22,208,357 in 2006, an increase of \$9,560,157 and \$12,662,541 in 2005, an increase of \$1,467,589. Of the fund balance, \$5,183,217 or 23.34% in 2006 and \$6,481,901 or 51.19% in 2005, constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining

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

fund balance of \$17,025,140 or 76.67% in 2006 and \$6,180,640 or 48.81% in 2005, is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for fiscal year 2006 was \$5,672,120. The Board of Education has designated \$7,052,526 of this fund balance for future capital construction. The fund balances in all other funds increased a total of \$3,888,037.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget. Some of the significant adjustments are described below.

The school district revised its budget to reflect the additional revenue received and the additional expenditures associated with insurance proceeds and damage repairs, as well as federal disaster assistance grants as a result of Hurricane Katrina.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. The District's total capital assets as of June 30, 2006 were \$54,632,203 and \$54,437,862 as of June 30, 2005, including school buildings, buses, other school vehicles, and furniture and equipment. This amount represents an increase of \$194,341 from the previous year. Total accumulated depreciation as of June 30, 2006 was \$17,611,471 and total depreciation expense was \$1,275,612. Total accumulated depreciation as of June 30, 2005 was \$16,792,549. Total net assets were \$37,020,732 and \$37,645,313, respectively.

	<u>Capital Assets, Net of Depreciation</u>		<u>Percentage</u>
	<u>2006</u>	<u>2005</u>	<u>Change</u>
Land	581,969	581,969	0.0%
Construction in progress	-	9,972	-100.0%
Buildings	29,691,785	30,482,904	-2.6%
Building improvements	5,538,169	5,638,501	-1.8%
Mobile equipment	844,014	630,317	33.9%
Furniture and equipment	364,795	301,650	20.9%
Total	\$ 37,020,732	\$ 37,645,313	-1.7%

Additional information of the District's capital assets can be found in Note 5 on page 32 - 33 of this report.

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

Debt Administration. At June 30, 2006 and 2005 the District had \$20,585,419 and \$21,798,324, respectively, in limited obligation bonds and other long-term debt outstanding, with \$1,360,174 in 2006 and \$1,322,235 in 2005 due within one year.

	Outstanding Debt		Percentage
	<u>2006</u>	<u>2005</u>	<u>Change</u>
General obligation bonds payable	\$ 2,285,000	\$ 2,525,000	-9.5%
Three mill notes payable	6,145,000	6,470,000	-5.0%
Shortfall notes payable	194,229	288,524	-32.7%
Obligations under capital leases	52,005	83,065	-37.4%
Limited obligation bonds payable	11,295,000	11,925,000	-5.3%
Compensated absences payable	<u>614,185</u>	<u>506,735</u>	21.2%
Total	\$ 20,585,419	\$ 21,798,324	-5.6%

Additional information of the District's long-term debt can be found in Note 6 on page 33-37 of this report.

CURRENT ISSUES

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

On September 12, 2006, the voters of Jones County approved a \$37 million dollar bond issue for construction and renovation to the district's facilities. The referendum passed with a 90.5 percent approval vote. The district began its construction plans immediately and anticipates completion of the facility improvements by August 2008.

The District has committed itself to financial excellence for many years. The millage rate has decreased 3.92 mills over the past 4 years (58.69 in 2002, and 54.77 in 2006). In addition, the District's system of financial planning, budgeting and internal financial controls are well regarded. The District has received recognition from the Office of the State Auditor for financial reporting. The District plans to continue its sound fiscal management to meet the challenges of the future.

Student enrollment increased at the start of the 2006-07 school year to 8,049 students from 7,921 students at the end of the 2005-06 school year. The district is the 8th largest school district in the State of Mississippi.

Based upon the State of Mississippi school accountability system, seven of the district's schools are rated Level 5 "Superior" and three of the district's schools are rated Level 4 "Exemplary."

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Jones County School District, 5204 Highway 11 North, Ellisville, MS 39437.

FINANCIAL STATEMENTS

**JONES COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006**

EXHIBIT A

	Primary Government Governmental Activities
ASSETS:	
Cash and cash equivalents (Note 3)	\$ 14,686,352
Cash with fiscal agents	408,513
Investments	4,886,830
Due from Other Governments	3,484,870
Other Receivables, net	182,379
Inventories and prepaid items	399,190
Deferred charges	97,218
Restricted assets	1,535,114
Capital assets, not being depreciated:	
Land	581,969
Capital assets, net of accumulated depreciation:	
Buildings	29,691,785
Building Improvements	5,538,169
Mobile Equipment	844,014
Furniture and Equipment	364,795
TOTAL ASSETS	<u>\$ 62,701,198</u>
 LIABILITIES:	
Accounts payable and accrued liabilities	\$ 3,319,219
Deferred Revenue	41,688
Interest payable on long term liabilities	87,285
Long-term liabilities (Due within one year) (Note 6)	
Capital related liabilities	1,263,999
Non-capital related liabilities	96,175
Long-term liabilities (Due beyond one year) (Note 6)	
Capital related liabilities	18,513,006
Non-capital related liabilities	712,239
TOTAL LIABILITIES	<u>\$ 24,033,611</u>
 NET ASSETS:	
Investment in capital assets (net of related debt)	\$ 17,243,752
Restricted net assets:	
Expendable:	
School-Based Activities	2,754,152
Debt Service	1,129,548
Forestry Improvements	140,850
Unemployment Benefits	154,921
Nonexpendable:	
Sixteenth Section	9,277,653
Unrestricted:	7,966,711
TOTAL NET ASSETS	<u>\$ 38,667,587</u>

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

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

EXHIBIT B

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
Primary Government:					
Governmental Activities:					
Instruction	\$ 41,819,745	\$ 1,611,959	\$ 40,385,613	\$ -	\$ 177,827
Support Services	16,459,644	-	3,210,218	-	(13,249,426)
Non-instructional	3,087,706	608,240	114,466	-	(2,365,000)
Sixteenth Section	795,541	-	-	-	(795,541)
Interest & other expenses on long-term liabilities	<u>1,037,788</u>	<u>-</u>	<u>-</u>	<u>1,201,316</u>	<u>163,528</u>
Total governmental activities	<u>\$ 63,200,424</u>	<u>\$ 2,220,199</u>	<u>\$ 43,710,297</u>	<u>\$ 1,201,316</u>	<u>(16,068,612)</u>
			General Revenues:		
			Taxes:		
			General purpose levies	10,859,658	
			Debt purpose levies	556,448	
			Unrestricted grants & contributions:		
			State	1,349,569	
			Federal	2,893,415	
			Unrestricted investment earnings	525,742	
			Sixteenth Section Sources	4,473,431	
			Insurance Loss Recoveries	5,382,801	
			Other	<u>143,223</u>	
			Total General Revenues	<u>26,184,287</u>	
			Change in Net Assets	10,115,675	
			Net Assets - Beginning	<u>28,551,912</u>	
			Net Assets - Ending	<u>\$ 38,667,587</u>	

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

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

EXHIBIT C

	MAJOR FUNDS					Total Governmental Funds
	General Fund	Restart Grant Fund	Hurricane Katrina Fund	16th Section Principal Fund	Other Governmental Funds	
ASSETS:						
Cash and cash equivalents (Note 3)	\$ 7,425,982	\$ -	\$ 106,476	\$ 4,651,601	\$ 2,502,294	\$ 14,686,353
Cash with fiscal agents (Note3)	-	-	-	-	408,513	408,513
Investments (Note 3)	4,093,637	-	-	1,535,114	793,192	6,421,943
Due from Other Governments	1,067,917	-	94,075	-	2,322,878	3,484,870
Other Receivables, Net	147,591	-	-	4,498	30,290	182,379
Due from other funds (Note 4)	2,136,641	-	-	142,290	452,973	2,731,904
Advances to other funds	-	-	-	3,803,018	-	3,803,018
Inventories and prepaid items	302,603	-	-	-	96,587	399,190
TOTAL ASSETS	\$ 15,174,371	\$ -	\$ 200,551	\$ 10,136,521	\$ 6,606,727	\$ 32,118,170
LIABILITIES & FUND BALANCES:						
Liabilities:						
Accounts payable and accrued liabilities	\$ 2,248,246	\$ -	\$ -	\$ 702,453	\$ 368,520	\$ 3,319,219
Due to other funds (Note 4)	351,093	-	-	156,415	2,224,396	2,731,904
Advances from other funds	3,803,018	-	-	-	-	3,803,018
Deferred Revenue	10,875	-	-	-	44,797	55,672
Total Liabilities	6,413,232	-	-	858,868	2,637,713	9,909,813
Fund Balances:						
Reserved For:						
Inventory	22,141	-	-	-	27,418	49,559
Prepaid Insurance	280,462	-	-	-	69,169	349,631
Advances	-	-	-	3,803,018	-	3,803,018
Unemployment	-	-	-	-	154,921	154,921
Forestry	-	-	-	-	140,850	140,850
Permanent Funds	-	-	-	5,474,635	-	5,474,635
Unreserved:						
Designated, reported in:						
General Fund	7,052,526	-	-	-	-	7,052,526
Undesignated, reported in:						
General Fund	1,406,010	-	-	-	-	1,406,010
Special Revenue Funds	-	-	200,551	-	2,457,016	2,657,567
Capital Projects	-	-	-	-	25	25
Debt Service Funds	-	-	-	-	1,119,615	1,119,615
Permanent Funds	-	-	-	-	-	-
Total Fund Balances	8,761,139	-	200,551	9,277,653	3,969,014	22,208,357
TOTAL LIABILITIES & FUND BALANCE	\$ 15,174,371	\$ -	\$ 200,551	\$ 10,136,521	\$ 6,606,727	\$ 32,118,170

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

EXHIBIT C-1

	Amount
Total Fund Balance - Governmental Funds	\$ 22,208,357
 Amounts reported for net assets in the statement of net assets are different because:	
1. Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$17,611,471. (Note 5)	37,020,732
2. Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. (Note 6)	97,218
3. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (Note 6)	(20,585,419)
4. Interest accrued on long-term liabilities.	(87,285)
5. Revenues earned but unavailable from Sixteenth Section Sources.	13,984
 Total Net Assets - Governmental Activities	 \$ 38,667,587

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

EXHIBIT D

	MAJOR FUNDS					Total Governmental Funds
	General Fund	Restart Grant Fund	Hurricane Katrina Fund	16th Section Principal Fund	Other Governmental Funds	
REVENUES						
Local Sources	\$ 12,854,396	\$ -	\$ 35,190	\$ 35,114	\$ 1,259,268	\$ 14,183,968
State Sources	33,414,861	-	-	-	2,496,340	35,911,201
Federal Sources	352,535	4,376,007	94,075	-	8,420,779	13,243,396
Sixteenth Section Sources	-	-	-	4,017,170	580,229	4,597,399
TOTAL REVENUES	<u>46,621,792</u>	<u>4,376,007</u>	<u>129,265</u>	<u>4,052,284</u>	<u>12,756,616</u>	<u>67,935,964</u>
EXPENDITURES						
Instruction	25,962,906	4,104,777	4,792,391	-	5,964,235	40,824,309
Support Services	13,397,398	271,230	334,724	-	2,623,634	16,626,986
Noninstructional Services	-	-	14,465	-	3,038,698	3,053,163
Sixteenth Section	-	-	-	702,453	93,046	795,499
Facilities Acquisition & Const.	-	-	-	-	133,987	133,987
Debt Service:						
Principal	31,060	-	-	-	1,289,295	1,320,355
Interest	154,589	-	-	-	867,400	1,021,989
TOTAL EXPENDITURES	<u>39,545,953</u>	<u>4,376,007</u>	<u>5,141,580</u>	<u>702,453</u>	<u>14,010,295</u>	<u>63,776,288</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>7,075,839</u>	<u>-</u>	<u>(5,012,315)</u>	<u>3,349,831</u>	<u>(1,253,679)</u>	<u>4,159,676</u>
OTHER FINANCING SOURCES (USES)						
Proceeds of loans	-	-	-	-	-	-
Insurance Loss Recoveries	169,935	-	5,212,866	-	-	5,382,801
Sale of other Property	17,680	-	-	-	-	17,680
Indirect Costs	83,133	-	-	-	(83,133)	-
Operating Transfers In	8,982,331	-	-	-	2,322,040	11,304,371
Operating Transfers Out	(10,656,798)	-	-	(156,415)	(491,158)	(11,304,371)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,403,719)</u>	<u>-</u>	<u>5,212,866</u>	<u>(156,415)</u>	<u>1,747,749</u>	<u>5,400,481</u>
NET CHANGE IN FUND BALANCES	5,672,120	-	200,551	3,193,416	494,070	9,560,157
FUND BALANCE: JULY 1, 2005	3,095,574	-	-	6,084,237	3,482,730	12,662,541
INCREASE (DECREASE) IN RESERVE FOR INVENTORY	<u>(6,555)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,786)</u>	<u>(14,341)</u>
JUNE 30, 2006	<u>\$ 8,761,139</u>	<u>\$ -</u>	<u>\$ 200,551</u>	<u>\$ 9,277,653</u>	<u>\$ 3,969,014</u>	<u>\$ 22,208,357</u>

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

EXHIBIT D-1

Net Change in fund balances - governmental funds \$ 9,560,157

Amounts reported for governmental activities in the statement of activities are different because:

- | | |
|--|------------|
| 1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchases amounted to \$703,430 and the depreciation expense amounted to \$1,275,612. The net loss on retirement of asset was \$52,399. (Note 5) | (624,581) |
| 2. Revenues in the statement of activity that do not provide current 16th section financial resources are not reported as revenues in the governmental funds. | (2,666) |
| 3. Proceeds of long-term liabilities is reported in the governmental funds, but not in the statement of activity. (Note 6) | (107,450) |
| 3. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of activity. (Note 6) | 1,320,355 |
| 4. Change in interest accrued on long-term liabilities not recorded in the governmental funds, but recorded and expensed in the statement of activity. | 4,104 |
| 5. Issuance cost for long-term liabilities is reported as expenditures in the governmental funds, but is deferred and amortized in the statement of activity. | (19,902) |
| 6. Increase (Decrease) in inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are increased (decreased) in the statement of activity. | (14,341) |
| 7. Rounding | <u>(1)</u> |

Change in net assets of governmental activities \$ 10,115,675

**JONES COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2006**

EXHIBIT E

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents (Note 3)	\$ 195,094
TOTAL ASSETS	<u>195,094</u>
LIABILITIES	
Due to Student Clubs	<u>195,094</u>
TOTAL LIABILITIES	<u>\$ 195,094</u>

**JONES COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity.

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the School District's governing board. As defined by accounting principles generally accepted in the United States of America, the School District is considered a "primary government." The School District is governed by a five member board which each member was elected by the citizens of each defined county district.

B. Basis of Presentation

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

Governmental-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.

**JONES COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements:

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

The School District reports the following major governmental funds:

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

Restart Grant Fund - This is the fund that accounts for federal grant revenues and expenditures from grant money related to Hurricane Katrina.

Hurricane Katrina Fund - This fund accounts for the insurance proceeds and expenditures related to repairs to the schools due to Hurricane Katrina.

Sixteenth Section Principal Fund - This is the fund that accounts for all revenues and expenditures of sixteenth section fund that are nonexpendable.

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

**JONES COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Project 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 operation.

D. Account Classifications.

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

E. Encumbrances.

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

F. Cash and Cash Equivalents.

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

Cash and cash equivalents consist 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.

**JONES COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 government-wide fund type inventories are reported as expenditures when purchased.

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

I. Capital Assets.

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

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

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

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

**JONES COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

J. Long-term Liabilities.

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

K. Interfund Transactions and Balances.

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

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

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 4 for details for interfund transactions, including receivables and payables at year-end.

**JONES COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Equity Classifications.

Government-Wide Financial Statements:

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

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, constructions, or improvement of those assets.
- b. 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.
- c. 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 further split between designated and undesignated.

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

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

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

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

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

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

**JONES COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Unreserved – designated for, reported in General Fund – An account that represents a portion of the unreserved fund balance that the school board has specifically obligated for future capital construction.

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. Minimum Adequate Education Program Revenues.

Revenues from the state minimum 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 to do so by Section 37-7-307(5), Miss Code Ann. (1972).

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

P. Other Significant Accounting Policies.

The Debt Service Funds for long-term debt issued prior to April 15, 1986, under the provisions of Section 37-59-101, Miss. Code Ann. (1972), et seq., and prior to March 3, 1987, under the provisions of Section 37-59-1, Miss. Code Ann. (1972), et seq., are maintained by the governing authority of the county and are not included in the government-wide financial statements of the School District. The borrowing of money by the issuance of the debt referred to above was a function of the governing authority of the county prior to April 15, 1986 or March 3, 1987, as the case may be.

**JONES COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In our state, school boards and superintendents had no responsibility in connection with the debt issued before the dates referred to above. The payment of this debt is an obligation of the governing authority of the county who is acting for the school district.

In connection with any debt issued subsequent to the dates referred to above, the School board is responsible for the issuance and maintenance of School District related debt.

(2) CHANGES IN ACCOUNTING STANDARDS.

As required, the Jones 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 current fiscal year. This Statement requires governments to evaluate major events effecting capital assets to determine whether they are impaired. Such events include physical damage, changes in legal or environmental factors technology changes or obsolescence, changes in the manner or duration of use and construction stoppage. Appropriate note disclosures have been incorporated to comply with the requirements of this standard.

(3) CASH AND CASH EQUIVALENTS, CASH WITH FISCAL AGENTS 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

**JONES COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(3) CASH AND CASH EQUIVALENTS, CASH WITH FISCAL AGENTS AND INVESTMENTS (CONTINUED).

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 \$14,686,353 and \$195,094, respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and cash equivalents \$14,686,352 and Restricted Assets (Investments) \$1,535,114. The Restricted assets represents the cash balance of the 16th section Principal funds (Permanent Funds) which is legally restricted and may not be used for purposes that support the District's programs. The bank balance was \$18,647,542.

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 school district's bank balances were exposed to custodial credit risks.

Cash with Fiscal Agents.

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$408,513.

Investments.

As of June 30, 2006, all of the district's investments were in the Mississippi Education Investment Pool held at Bancorp South Investment Services, Inc.

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.

**JONES COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS ·
FOR THE YEAR ENDED JUNE 30, 2006**

(3) CASH AND CASH EQUIVALENTS, CASH WITH FISCAL AGENTS AND INVESTMENTS (CONTINUED).

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 possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk. All of the district’s investments are held by the investment’s counterparty, not in the name of the district.

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, all of the district’s investments were in an external investment pool.

(4) INTERFUND TRANSACTIONS AND BALANCES.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

	<u>Due From</u>	<u>Due To</u>
Governmental Funds:		
General Fund	\$2,136,641	\$ 351,093
Sixteenth Section Principal Fund	142,290	156,415
Other Governmental Funds:	<u>452,973</u>	<u>2,224,396</u>
Total Funds	<u>\$2,731,904</u>	<u>\$2,731,904</u>

The amounts due to or from other funds represent amounts advanced or received for timing differences between revenues and expenditures and cash balances

B. Advances From/To Other Funds:

	<u>Advances From</u>	<u>Advances To</u>
Governmental Funds:		
General Fund	\$ 0	\$3,803,018
Sixteenth Section Principal Fund	<u>3,803,018</u>	<u>0</u>
Total Funds	<u>\$3,803,018</u>	<u>\$3,803,018</u>

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

**JONES COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(4) INTERFUND TRANSACTIONS AND BALANCES (CONTINUED)

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	\$ 356,251	\$ 152,121	\$ 508,372
2008	336,251	137,871	474,122
2009	316,251	124,421	440,672
2010	314,251	111,771	426,022
2011	314,251	99,201	413,452
2012 - 2016	1,395,198	317,852	1,713,050
2017 - 2021	605,893	101,829	707,722
2022 - 2025	<u>164,672</u>	<u>12,735</u>	<u>177,407</u>
Total	<u>\$3,803,018</u>	<u>\$1,057,801</u>	<u>\$4,860,819</u>

C. Transfers In/Out:

	<u>Transfer In</u>	<u>Transfer Out</u>
Governmental Funds:		
General Fund	\$ 8,982,331	\$10,656,798
Sixteenth Section Principal Fund	0	156,415
Other Governmental Funds:	<u>2,322,040</u>	<u>491,158</u>
Total Funds	<u>\$11,304,371</u>	<u>\$11,304,371</u>

The transfers represent board approved operating transfers for school operations and planning purposes.

**JONES COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(5) **CAPITAL ASSETS**

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

	<u>Balance 7/1/2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Construction Completed</u>	<u>Balance 6/30/2006</u>
<u>Non-depreciable capital assets:</u>					
Land	\$ 581,969	\$ -	\$ -	\$ -	\$ 581,969
Construction in progress	9,972	-	-	(9,972)	-
Total Non-depreciable capital assets	<u>591,941</u>	<u>-</u>	<u>-</u>	<u>(9,972)</u>	<u>581,969</u>
<u>Depreciable capital assets:</u>					
Buildings	42,908,210	-	175,913	-	42,732,297
Building Improvements	6,347,376	133,987	38,944	9,972	6,452,391
Mobile equipment	2,628,261	362,435	-	-	2,990,696
Furniture and equipment	1,962,074	207,008	294,232	-	1,874,850
Total depreciable capital assets	<u>53,845,921</u>	<u>703,430</u>	<u>509,089</u>	<u>9,972</u>	<u>54,050,234</u>
<u>Less Accumulated Depreciation for:</u>					
Buildings	12,425,306	755,936	140,730	-	13,040,512
Building Improvements	708,875	236,502	31,155	-	914,222
Mobile equipment	1,997,944	148,738	-	-	2,146,682
Furniture and equipment	1,660,424	134,436	284,805	-	1,510,055
Total Accumulated Depreciation	<u>16,792,549</u>	<u>1,275,612</u>	<u>456,690</u>	<u>-</u>	<u>17,611,471</u>
Total Depreciable Capital Assets, Net	<u>37,053,372</u>	<u>(572,182)</u>	<u>52,399</u>	<u>9,972</u>	<u>36,438,763</u>
Governmental Activities Capital Assets, Net	<u>\$ 37,645,313</u>	<u>\$ (572,182)</u>	<u>\$ 52,399</u>	<u>\$ -</u>	<u>\$ 37,020,732</u>

**JONES COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(5) CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$1,043,910
Support Services	196,151
Noninstructional	35,551
 Total depreciation expense	 <u>\$1,275,612</u>

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

There were no outstanding construction commitments as of June 30, 2006.

(6) LONG TERM LIABILITIES

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

	Balance 7/1/2005	Additions	Reductions	Balance 6/30/2006	Amounts due w/in one yr
A. General Oblig. Bonds Payable	\$ 2,525,000	\$ -	\$ 240,000	\$ 2,285,000	\$ 240,000
B. Limited Oblig. Bonds Payable	11,925,000	-	630,000	11,295,000	675,000
D. Three Mill Notes Payable	6,470,000	-	325,000	6,145,000	330,000
E. Shortfall Notes Payable	288,524	-	94,295	194,229	96,175
F. Oblig. under Capital Lease	83,065	-	31,060	52,005	18,999
G. Comp. Absences Payable	506,735	107,450	-	614,185	-
 Total	 <u>\$ 21,798,324</u>	<u>\$ 107,450</u>	<u>\$ 1,320,355</u>	<u>\$ 20,585,419</u>	<u>\$ 1,360,174</u>

**JONES COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(6) LONG-TERM LIABILITIES (CONTINUED)

A. General Obligation Bonds Payable

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
2003 Refunding Bonds (COP)	1.25-4.2%	8/28/2003	2/1/2016	2,410,000	2,110,000
2003 Refunding Bonds (Glade)	1.25-4.2%	8/28/2003	2/1/2016	<u>345,000</u>	<u>175,000</u>
Total				<u>\$ 2,755,000</u>	<u>\$ 2,285,000</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	\$ 240,000	\$ 76,546	\$ 316,546
2008	280,000	71,803	351,803
2009	195,000	66,153	261,153
2010	200,000	60,303	260,303
2011	210,000	53,803	263,803
2012 - 2016	<u>1,160,000</u>	<u>145,973</u>	<u>1,305,973</u>
Total	<u>\$2,285,000</u>	<u>\$474,581</u>	<u>\$2,759,581</u>

The amount of bonded indebtedness that can be incurred by the School District is limited by state statute. Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such District, according to the 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 0.92% of property assessments as of August 15, 2005.

This debt will be retired from the 2003 Refunding Debt Service fund.

**JONES COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(6) LONG-TERM LIABILITIES (CONTINUED)

B. Limited Obligation Bonds Payable

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
State Aid Capital Improvement:					
1997 Series	4.4-6.25%	12/10/1997	12/15/2017	\$ 5,500,000	\$ 4,305,000
1998 Series	4.3-6.0%	4/20/1998	2/1/2018	<u>8,960,000</u>	<u>6,990,000</u>
Total				<u>\$ 14,460,000</u>	<u>\$ 11,295,000</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	\$ 675,000	\$ 512,858	\$ 1,187,858
2008	700,000	479,313	1,179,313
2009	735,000	447,835	1,182,835
2010	775,000	414,343	1,189,343
2011	790,000	379,233	1,169,233
2012 - 2016	4,575,000	1,291,182	5,866,182
2017 - 2021	<u>3,045,000</u>	<u>195,444</u>	<u>3,240,444</u>
Total	<u>\$11,295,000</u>	<u>\$3,720,208</u>	<u>\$15,015,208</u>

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

**JONES COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(6) LONG-TERM LIABILITIES (CONTINUED)

D. 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>Amount Issued</u>	<u>Amount Outstanding</u>
Limited Tax Notes Series 2003	1.25%-4.35%	8/4/2003	10/1/2020	\$6,500,000	\$6,145,000

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	\$ 330,000	\$ 223,819	\$ 553,819
2008	335,000	218,539	553,539
2009	340,000	211,504	551,504
2010	345,000	201,304	546,304
2011	355,000	189,919	544,919
2012 - 2016	1,995,000	744,008	2,739,008
2017 - 2021	<u>2,445,000</u>	<u>254,040</u>	<u>2,699,040</u>
Total	<u>\$6,145,000</u>	<u>\$2,043,133</u>	<u>\$8,188,133</u>

This debt is retired from the Three Mill Refunding Escrow Fund.

E. Shortfall Notes Payable

Debt currently outstanding is as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
2004 Shortfall	1.98%	9/23/2004	9/23/2007	<u>\$ 288,524</u>	<u>\$ 194,229</u>

**JONES COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(6) LONG-TERM LIABILITIES (CONTINUED)

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	\$ 96,175	\$3,833	\$100,008
2008	<u>98,054</u>	<u>1,954</u>	<u>100,008</u>
	<u>\$194,229</u>	<u>\$5,787</u>	<u>\$200,016</u>

This debt is retired from the Shortfall Debt Service Fund.

E. Obligations under Capital Lease

The School District has entered into lease agreements that qualify as capital leases for accounting purposes. Leased property under these leases are composed of software, communications equipment, and timekeeping equipment system. These assets are not capitalized due to the individual components being less than the threshold amounts.

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 and Maintenance Charges</u>	<u>Total</u>
2007	\$18,999	\$1,348	\$20,347
2008	19,598	749	20,347
2009	<u>13,408</u>	<u>157</u>	<u>13,565</u>
Total	<u>\$52,005</u>	<u>\$2,254</u>	<u>\$54,259</u>

This debt will be retired from the General Fund.

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.

F. Compensated Absences Payable

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

(7) DEFINED BENEFIT PENSION PLAN

Plan Description. The Jones County 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

**JONES COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(7) DEFINED BENEFIT PENSION PLAN (CONTINUED)

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 Jones County School District is required to contribute at an actuarially determined rate. The current rate is 10.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The Jones County School District's contributions to PERS for the fiscal years ending June 30, 2006, 2005, and 2004 were \$3,609,371, \$2,821,821 and \$2,622,138 respectively, which equaled the required contributions for each year.

(8) SIXTEENTH SECTION LANDS

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2007	\$119,412
2008	111,883
2009	101,196
2010	90,687
2011	<u>85,202</u>
	<u>\$508,380</u>

(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. 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.

(10) SUBSEQUENT EVENTS

On September 12, 2006, a \$37 million dollar bond issue for construction and renovation to the school district's facilities was voted and passed by the taxpayers of Jones County. The school district has begun construction plans, however, there have been no commitments on construction.

REQUIRED SUPPLEMENTARY INFORMATION

**JONES COUNTY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006**

SCHEDULE 1a

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
REVENUES					
Local Sources	\$ 12,967,501	\$ 13,069,086	\$ 12,854,396	\$ 101,585	\$ (214,690)
State Sources	33,469,174	33,405,987	33,414,861	(63,187)	8,874
Federal Sources	636,773	406,613	352,535	(230,160)	(54,078)
TOTAL REVENUES	<u>47,073,448</u>	<u>46,881,686</u>	<u>46,621,792</u>	<u>(191,762)</u>	<u>(259,894)</u>
EXPENDITURES					
Instruction	30,184,547	26,264,340	25,962,906	3,920,207	301,434
Support Services	15,011,046	13,405,088	13,397,398	1,605,958	7,690
Sixteenth Section	-	48,056	-	-	48,056
Facilities Acquisition & Const.	-	172,959	-	(172,959)	172,959
Debt Service	498,566	-	185,649	498,566	(185,649)
TOTAL EXPENDITURES	<u>45,694,159</u>	<u>39,890,443</u>	<u>39,545,953</u>	<u>5,803,716</u>	<u>344,490</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>1,379,289</u>	<u>6,991,243</u>	<u>7,075,839</u>	<u>5,611,954</u>	<u>84,596</u>
OTHER FINANCIAL SOURCES (USES)					
Insurance Loss Recoveries	4,544,671	9,248,496	9,253,079	4,703,825	4,583
Sale of Other Property					
Indirect Costs					
Operating Transfers In					
Operating Transfers Out	(5,851,541)	(10,612,070)	(10,656,798)	(4,760,529)	(44,728)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,306,870)</u>	<u>(1,363,574)</u>	<u>(1,403,719)</u>	<u>(56,704)</u>	<u>(40,145)</u>
NET CHANGE IN FUND BALANCES	72,419	5,627,669	5,672,120	5,555,250	44,451
FUND BALANCE: JULY 1, 2005	754,082	3,095,575	3,095,574	2,341,493	(1)
INCREASE (DECREASE) IN RESERVE FOR INVENTORY	-	-	(6,555)	-	(6,555)
JUNE 30, 2006	<u>\$ 826,501</u>	<u>\$ 8,723,244</u>	<u>\$ 8,761,139</u>	<u>\$ 7,896,743</u>	<u>\$ 37,895</u>

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

**JONES COUNTY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE RESTART GRANT FUND
FOR THE YEAR ENDED JUNE 30, 2006**

SCHEDULE 1b

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
REVENUES					
Local Sources	\$ -	\$ -	\$ -	\$ -	\$ -
State Sources	-	-	-	-	-
Federal Sources	-	4,376,007	4,376,007	4,376,007	-
TOTAL REVENUES	-	4,376,007	4,376,007	4,376,007	-
EXPENDITURES					
Instruction	-	4,104,777	4,104,777	(4,104,777)	-
Support Services	-	271,230	271,230	(271,230)	-
Noninstructional Services	-	-	-	-	-
Sixteenth Section	-	-	-	-	-
Facilities Acquisition & Const.	-	-	-	-	-
Debt Service	-	-	-	-	-
TOTAL EXPENDITURES	-	4,376,007	4,376,007	(4,376,007)	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	-	-	-	-
OTHER FINANCIAL SOURCES (USES)					
Other financing sources	-	-	-	-	-
Other financing (uses)	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-	-
NET CHANGE IN FUND BALANCES	-	-	-	-	-
FUND BALANCE:					
JULY 1, 2005	-	-	-	-	-
INCREASE (DECREASE) IN RESERVE FOR INVENTORY	-	-	-	-	-
JUNE 30, 2006	\$ -	\$ -	\$ -	\$ -	\$ -

**JONES COUNTY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE HURRICANE KATRINA FUND
FOR THE YEAR ENDED JUNE 30, 2006**

SCHEDULE 1c

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
REVENUES					
Local Sources	\$ -	\$ 35,190	\$ 35,190	\$ 35,190	\$ -
State Sources	-	-	-	-	-
Federal Sources	-	94,075	94,075	94,075	-
TOTAL REVENUES	-	129,265	129,265	129,265	-
EXPENDITURES					
Instruction	-	387,173	4,792,391	(387,173)	(4,405,218)
Support Services	-	238,108	334,724	(238,108)	(96,616)
Noninstructional Services	-	14,465	14,465	(14,465)	-
Sixteenth Section	-	-	-	-	-
Facilities Acquisition & Const.	-	4,501,834	-	(4,501,834)	4,501,834
Debt Service	-	-	-	-	-
TOTAL EXPENDITURES	-	5,141,580	5,141,580	(5,141,580)	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	(5,012,315)	(5,012,315)	(5,012,315)	-
OTHER FINANCIAL SOURCES (USES)					
Other financing sources	-	5,212,866	5,212,866	5,212,866	-
Other financing (uses)	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	5,212,866	5,212,866	5,212,866	-
NET CHANGE IN FUND BALANCES	-	200,551	200,551	200,551	-
FUND BALANCE:					
JULY 1, 2005	-	-	-	-	-
INCREASE (DECREASE) IN RESERVE FOR INVENTORY	-	-	-	-	-
JUNE 30, 2006	\$ -	\$ 200,551	\$ 200,551	\$ 200,551	\$ -

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

**JONES COUNTY SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2006**

Budgetary Comparison Schedule

(1) Basis of Presentation.

The Budgetary Comparison 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 budgets 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.

**JONES COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

SCHEDULE 2

Federal Grantor/ Pass-Through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>		
Direct:		
Conservation Reserve Program	10.069	\$ 60,859
Passed-Through Mississippi Dept. of Education:		
Non-Cash Assistance:		
Food Donation	10.550	188,493
Child Nutrition Cluster		
School Breakfast Program	10.553	490,004
National School Lunch Program	10.555	1,858,561
Total Child Nutrition Cluster		2,348,565
Distance Learning and Telemedicine Loans and Grants	10.855	495,151
Total U.S. Dept. of Agriculture		3,093,068
<u>FEDERAL COMMUNICATIONS COMMISSION</u>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.xxx	500,584
Total Federal Communications Commission		500,584
<u>U.S. DEPARTMENT OF EDUCATION</u>		
Passed-Through Mississippi Board of Community and Junior Colleges:		
Adult Education-state grant program	84.002	99,957
Passed-Through Mississippi Dept. of Education:		
Title I Grants to Local Educational Agencies	84.010	1,650,341
Migrant Education - State Grant Program	84.011	55,646
Vocational Education - Basic Grants to States	84.048	91,791
Safe and Drug Free Schools and Communities National Programs	84.184	5,109
Safe and Drug Free Schools and Communities - State Grants	84.186	60,505
State Grants for Innovative Programs	84.298	24,609
Education Technology State Grants	84.318	36,523
School Renovation Grants	84.352	49,027
Rural Education	84.358	43,278
Improving Teacher Quality - State Grants	84.367	583,650
Hurricane Education Recovery	84.938	5,011,765
Total		7,612,243
Special Education Cluster:		
Special Education - Grants to States	84.027	1,548,710
Special Education - Preschool Grants	84.173	88,191
Total Special Education Cluster		1,636,901
Total Passed-Through MDE		9,249,144
Total U.S. Department of Education		9,349,102
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>		
Passed-Through Mississippi Department of Health and Human Services:		
Medical Assistance Program	93.778	2,529
<u>DEPARTMENT OF HOMELAND SECURITY</u>		
Passed-Through the Mississippi Department of Homeland Security		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	163,323
Total for all Federal Awards		\$ 13,108,606

NOTES TO THE SCHEDULE:

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

**JONES COUNTY SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL, ADMINISTRATIVE, AND OTHER EXPENDITURES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006**

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other Student Instructional Expenditures</u>	<u>General Administrative</u>	<u>School Administrative</u>	<u>Other</u>
Salaries and fringe benefits	\$ 44,655,016	\$ 31,461,222	\$ 1,021,870	\$ 3,086,273	\$ 9,085,651
Other	<u>19,121,272</u>	<u>9,369,640</u>	<u>214,240</u>	<u>230,071</u>	<u>9,307,321</u>
Total	\$ 63,776,288	\$ 40,830,862	\$ 1,236,110	\$ 3,316,344	\$ 18,392,972

Total number of students 7,947

Cost per student \$ 8,025 \$ 5,138 \$ 156 \$ 417 \$ 2,314

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

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

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

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

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

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

HOLT & ASSOCIATES, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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

October 27, 2006

Superintendent and School Board
Jones County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Jones County School District as of and for the year ended June 30, 2006, and have issued our report thereon dated October 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation or the internal control over financial reporting that, in our judgment, could adversely affect the school district's ability to initiate, record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the Schedule of Findings and Questioned Costs as Finding 06-1 and 06-2.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance that are required to be reported under *Governmental Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the School District in a separate letter dated October 27, 2006, which is included in this report.

Superintendent and School Board
Jones County School District
Page 2

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.

Holt & Associates PLLC

Holt & Associates, PLLC

October 27, 2006

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

October 27, 2006

Superintendent and School Board
Jones County School District

Compliance

We have audited the compliance of the Jones 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 auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

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

Superintendent and School Board
Jones County School District
Page two

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

This report is intended solely for the information and use of the School board, 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.

Holt & Associates PLLC

Holt & Associates, PLLC

October 27, 2006

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

HOLT & ASSOCIATES, PLLC

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

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October 27, 2006

Division of CPA Firms
Private Companies Practice Section

Superintendent and School Board
Jones County School District

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

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed the following instance of noncompliance. The noncompliance is reported in finding number 1 below. The district reported \$4,461 of classroom supply funds carried over from previous years.

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

Finding #1:

Federally funded teachers are being allocated monies from the Classroom Supplies and Instructional Materials Fund.

Recommendation:

In accordance with Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), federally funded teachers should not be allocated monies from this fund. Federally funded teachers should be allocated money for supplies from the federal fund from which they are being paid or other eligible sources, rather than from the Classroom Supplies and Instructional Materials Fund.

District Response:

The district will not allocate Classroom Supplies and Instructional Materials Funds to federally funded teachers.

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 for the information 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.

Holt & Associates PLLC

Holt & Associates, PLLC
October 27, 2006

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

Section 1: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

- | | |
|---|--------------------|
| 4. Type of auditor's report issued on compliance for major federal programs: | <u>Unqualified</u> |
| 5. Internal control over major programs: | |
| a. Material weakness(es) identified? | <u>No</u> |
| b. Reportable condition(s) identified that are not considered to be material weaknesses? | <u>No</u> |
| 6. Any audit finding(s) reported as required by section __.510(a) of Circular A-133? | <u>No</u> |
| 7. Federal programs identified as major programs: | |
| a. <u>Distance Learning and Telemedicine Loans and Grants: CFDA #: 10.855</u> | |
| b. <u>The Schools and Libraries Program of the Universal Service Fund: CFDA #: 32.xxx</u> | |
| c. <u>Improving Teacher Quality - State Grants: CFDA #: 84.367</u> | |
| d. <u>Hurricane Education Recovery Act Program: CFDA #: 84.938</u> | |

e. Cluster: Special Education

CFDA #: 84.027

CFDA #: 84.173

8. The dollar threshold used to distinguish between type A and type B programs: \$300,000
9. Auditee qualified as a low-risk auditee? No
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? Yes

Section 2: Financial Statement Findings

The results of our tests disclosed the following findings relating to the financial statements:

Finding 06-1:

Condition: Additions to capital assets were not added to the subsidiary ledger and depreciation schedule. These were added and depreciation computed as part of the audit procedures.

Criteria: Internal controls should be in place to insure that all additions to capital assets are added to the subsidiary ledger and depreciation schedules.

Effect: Depreciation was incorrectly computed and the subsidiary ledger did not accurately reflect the capital assets of the school district.

Recommendation: Procedures should be implemented to ensure that all additions to capital assets are correctly and timely reflected on the subsidiary ledger and depreciation schedule.

Finding 06-2:

Condition: In our test of expenditures, eight percent of the items tested were not paid in a timely manner.

Criteria: Internal controls should be in place so that all invoices are paid in a timely manner.

Effect: Vendors were not paid timely.

Recommendation: Procedures should be implemented so that invoices are paid in a timely manner.

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.

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

