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PHILADELPHIA PUBLIC SCHOOL DISTRICT

**Audited Financial Statements
For the Year Ended June 30, 2006**

PHILADELPHIA PUBLIC SCHOOL DISTRICT

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PHILADELPHIA PUBLIC SCHOOL DISTRICT

FINANCIAL AUDIT REPORT



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INDEPENDENT AUDITORS' REPORT
ON
THE BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

Superintendent and School Board
 Philadelphia Public School District

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2007, on our consideration of the Philadelphia Public School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial

reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 4 through 11 and the Budgetary Comparison Schedule and corresponding notes on pages 38 through 40 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Watkins, Ward and Stafford, PLLC
Philadelphia, Mississippi
January 10, 2007

Watkins, Ward and Stafford, PLLC

PHILADELPHIA PUBLIC SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Philadelphia Public School District
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Harold Cobum, Jr., Member
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Joseph White, Ph.D., Superintendent
Sandra Martin, Director of Business Affairs
Denise Butler, Payroll/Fixed Assets Officer
Belynda Adkins, Purchasing Officer
Leigh Allyn White, Accounts Payable Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of Philadelphia Public 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.

FINANCIAL HIGHLIGHTS

- Total net assets increased \$529,435, which represents a 33% increase from fiscal year 2005.
- General revenues account for \$7,562,571 in revenue, or 73% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$2,767,117 or 27% of total revenues.
- The District had \$9,800,253 in expenses; only \$2,767,117 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$7,562,571 were adequate to provide for these programs.
- Among major funds, the General Fund had \$6,800,381 in revenues and \$7,274,166 in expenditures. The General Fund's fund balance increased by \$11,631 over the prior year. The increase was a result of total other financing sources increasing slightly faster than total expenses.
- Capital assets, net of accumulated depreciation, increased by \$1,411,648. Depreciation expense for the year was \$268,381.
- Long-term debt increased by \$1,007,916. The District incurred new debt during the fiscal year ending June 30, 2006.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements 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.

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.

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

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

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

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

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

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$4,902,785 as of June 30, 2006.

By far the largest portion of the District's net assets \$3,547,434 (72%) reflects its investment in capital assets (e.g., land, buildings, improvements other than buildings, mobile equipment and furniture and equipment) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

The District's financial position is a product of several financial transactions including the net result of activities, payment of debt, the acquisition 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 June 30, 2005.

	<u>June 30</u> <u>2006</u>	<u>June 30</u> <u>2005</u>
Current and other assets	\$ 1,878,097	1,822,347
Capital assets, net	<u>8,901,547</u>	<u>7,489,449</u>
Total assets	\$ <u>10,779,644</u>	<u>9,311,796</u>
Current and other liabilities	\$ 410,265	479,304
Long-term debt outstanding	<u>5,466,594</u>	<u>4,458,678</u>
Total liabilities	\$ <u>5,876,859</u>	<u>4,937,982</u>
Net assets:		
Invested in capital assets, net of related debt	\$ 3,547,434	3,067,914
Restricted	281,764	242,493
Unrestricted	<u>1,073,587</u>	<u>1,063,407</u>
Total net assets	\$ <u>4,902,785</u>	<u>4,373,814</u>

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2006, were \$10,329,688. The total cost of all programs and services was \$9,800,253. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2006 and June 30, 2005.

	<u>June 30</u> <u>2006</u>	<u>June 30</u> <u>2005</u>
Revenues:		
Program revenues:		
Charges for services	\$ 320,223	261,703
Operating grants and contributions	2,446,894	1,953,801
General revenues:		
Property Taxes	2,425,375	2,524,264
Grants and contributions not restricted	4,712,600	4,856,005
Other	<u>424,596</u>	<u>110,829</u>
Total Revenues	<u>10,329,688</u>	<u>9,706,602</u>
Expenses:		
Instruction	5,820,696	5,305,278
Support services	2,987,721	2,743,665
Non-instructional	785,591	642,957
Interest and other expenses on Long-term liabilities	<u>206,245</u>	<u>227,272</u>
Total Expenses	<u>9,800,253</u>	<u>8,919,172</u>
Increase in net assets	\$ <u>529,435</u>	<u>787,430</u>

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

	<u>Total Expenses</u>		<u>Total Net</u>	
	<u>June 30</u>	<u>June 30</u>	<u>(Expense) Revenue</u>	<u>(Expense) Revenue</u>
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Instruction	\$ 5,820,696	5,305,278	(4,690,872)	(4,411,191)
Support service	2,987,721	2,743,665	(2,188,600)	(2,082,629)
Non-instructional	785,591	642,957	52,581	17,424
Interest on long-term liabilities	<u>206,245</u>	<u>227,272</u>	<u>(206,245)</u>	<u>(227,272)</u>
Total expenses	\$ <u>9,800,253</u>	<u>8,919,172</u>	<u>(7,033,136)</u>	<u>(6,703,668)</u>

- Net cost of governmental activities (\$7,033,136) was financed by general revenue, which is made up of primarily property taxes (\$2,425,375) and state revenue (\$4,629,074).

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 \$1,517,529, an increase of \$116,992 due primarily to expenditures during the fiscal year being held below normal revenues. \$1,001,665 or 66% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$515,864 or 34% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$11,631. This increase was a result of ordinary General Fund revenues being sufficient to meet ordinary expenses and the fact that no major unexpected expenditures were incurred.

Among the other major funds, fund balances for the Physical Education Grant Fund and the Capital Building Fund remained unchanged. The fund balance of Other Governmental Funds showed an increase of \$108,665.

BUDGETARY HIGHLIGHTS

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

- Budget amounts for Local Sources Revenue was increased due to school district being at 55 mills.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2006, the District's total capital assets were \$12,041,645, including land, school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$1,653,455 from the previous year. Total accumulated depreciation as of June 30, 2006, was \$3,140,548 and total depreciation expense for the year was \$268,381, resulting in total net assets of \$8,901,097.

Debt Administration. At June 30, 2006, the District had \$5,466,595 in general obligation bonds and other long-term debt outstanding, of which \$346,000 is due within one year. Principal payments on this debt during the year amounted to \$473,535. The District incurred \$1,480,000 in new debt during the year ending June 30, 2006 which consisted of \$1,200,000 Qualified Zone Academy Bonds.

The District maintains an AA bond rating.

CURRENT ISSUES

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

The District has committed itself to financial excellence for many years. The millage rate remained unchanged from the 2004-2005 year to the 2005-2006 year. In addition, the District system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

Latest enrollment figures indicate that student enrollment in the District will increase by 83 students during the 2006-2007 fiscal year. The budget for the next fiscal year has taken into account in both funding and staffing needs.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Philadelphia Public School District, 248 Byrd Avenue, Philadelphia, Mississippi 39350.

PHILADELPHIA PUBLIC SCHOOL DISTRICT

FINANCIAL STATEMENTS

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

	<u>Primary Government Governmental Activities</u>
Assets	
Cash and cash equivalents (Note 3)	\$ 946,866
Due from other governments	501,077
Accrued interest receivable	31
Other receivables, net	356,800
Inventories and prepaid items	10,587
Restricted assets	62,736
Capital assets, not being depreciated: (Note 5)	
Land	147,683
Construction in Progress	25,270
Capital assets, net of accumulated depreciation:	
Buildings	8,275,895
Improvements other than buildings	96,370
Mobile equipment	316,047
Furniture and equipment	40,282
	<hr/>
Total Assets	\$ <u><u>10,779,644</u></u>
Liabilities	
Accounts payable and accrued liabilities	\$ 360,568
Interest payable on long-term liabilities	49,697
Long-term liabilities, due within one year (Note 6)	
Capital related liabilities	346,000
Long-term liabilities, due beyond one year (Note 6)	
Capital related liabilities	5,082,000
Non-capital related liabilities	38,594
	<hr/>
Total Liabilities	\$ <u><u>5,876,859</u></u>
Net Assets	
Investment in capital assets, net of related debt	\$ 3,473,547
Restricted net assets:	
Expendable:	
School - based activities	83,287
Debt service	180,738
Capital improvement	73,887
Unemployment benefits	17,739
Unrestricted	1,073,587
	<hr/>
Total Net Assets	\$ <u><u>4,902,785</u></u>

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

PHILADELPHIA PUBLIC SCHOOL DISTRICT
 Statement of Activities
 For the Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Assets
				Primary Governmental Activities
Primary Government:				
Governmental Activities:				
Instruction	\$ 5,820,696	198,613	931,211	(4,690,872)
Support services	2,987,721		799,121	(2,188,600)
Non-instructional	785,591	121,610	716,562	52,581
Interest and other expenses on long-term liabilities	206,245			(206,245)
Total governmental activities	\$ 9,800,253	320,223	2,446,894	(7,033,136)
		General Revenues:		
		Taxes:		
		General purpose levies	\$ 2,115,784	
		Debt purpose levies	309,591	
		Unrestricted grants and contributions:		
		State	4,629,074	
		Federal	83,526	
		Unrestricted investment earnings	37,532	
		Sixteenth section sources	4,374	
		Other	382,690	
		Total General Revenues	7,562,571	
		Total General Revenues, Special Items, Extraordinary Items and Transfers		7,562,571
		Change in Net Assets		529,435
		Net Assets - Beginning		4,373,814
		Prior Period Adjustment		(464)
		Net Assets - Restated		4,373,350
		Net Assets - Ending		\$ 4,902,785

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

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

ASSETS	<u>Major Funds</u>				Total Governmental Funds
	General Fund	Physical Education Grant Fund	Capital Building Fund	Other Governmental Funds	
Cash and cash equivalents (Note 3)	\$ 660,746			286,120	946,866
Cash with fiscal agents				62,736	62,736
Due from other governments	99,224	112,966		288,887	501,077
Accrued interest receivable	31				31
Other receivable, net	356,800				356,800
Due from other funds (Note 4)	233,540				233,540
Inventories and prepaid items				10,587	10,587
Total Assets	\$ 1,350,341	112,966		648,330	2,111,637
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable and Accrued Liabilities	\$ 223,834	44,921		77,487	346,242
Contracts and Retained Percentage Payable	14,326				14,326
Due to other funds (Note 3)		68,045		165,495	233,540
Total Liabilities	238,160	112,966		242,982	594,108
Fund Balances:					
Reserved for:					
Ad valorem	257,103				257,103
Inventory				10,587	10,587
Debt Service				230,435	230,435
Unemployment Benefits				17,739	17,739
Unreserved:					
Designated:					
Capital Projects				73,887	73,887
Undesignated, reported in:					
General fund	855,078				855,078
Special Revenue funds				72,700	72,700
Total Fund Balances	1,112,181			405,348	1,517,529
Total Liabilities and Fund Balances	\$ 1,350,341	112,966		648,330	2,111,637

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

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

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 1,517,529
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets are used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$3,140,548	8,901,547
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds (Note 6)	(5,466,594)
3. Accrued interest payable is not due and payable in the current period and therefore not reported in the funds.	<u>(49,697)</u>
Total Net Assets - Governmental Activities	\$ <u><u>4,902,785</u></u>

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

	<u>Major Funds</u>				<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Physical Education Grant Fund</u>	<u>Capital Building Fund</u>	<u>Other Governmental Funds</u>	
Revenues:					
Local sources	\$ 2,301,156		2,131	533,604	2,836,891
State sources	4,415,699			404,850	4,820,549
Federal sources	83,526	191,409		2,064,010	2,338,945
Sixteenth section sources				4,373	4,373
Total Revenues	<u>6,800,381</u>	<u>191,409</u>	<u>2,131</u>	<u>3,006,837</u>	<u>10,000,758</u>
Expenditures:					
Instruction	4,438,324	119,666		1,076,260	5,634,250
Support services	2,442,599	6,000		591,518	3,040,117
Noninstructional services	294			771,876	772,170
Facilities acquisition and construction	362,807		1,201,582		1,564,389
Debt service:					
Principal	28,535		200,000	245,000	473,535
Interest	1,607		549	206,343	208,499
Other				2,239	2,239
Total Expenditures	<u>7,274,166</u>	<u>125,666</u>	<u>1,402,131</u>	<u>2,893,236</u>	<u>11,695,199</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(473,785)</u>	<u>65,743</u>	<u>(1,400,000)</u>	<u>113,601</u>	<u>(1,694,441)</u>
Other Financing Sources (Uses):					
Insurance loss recoveries	330,933				330,933
Sale of transportation equipment	500				500
Proceeds of loans			1,400,000	80,000	1,480,000
Operating transfers in	162,479			39,175	201,654
Operating transfers out	(8,496)	(65,743)		(127,415)	(201,654)
Total Other Financing Sources (Uses)	<u>485,416</u>	<u>(65,743)</u>	<u>1,400,000</u>	<u>(8,240)</u>	<u>1,811,433</u>
Net Change in Fund Balances	<u>11,631</u>	<u>-</u>	<u>-</u>	<u>105,361</u>	<u>116,992</u>
Fund Balances:					
July 1, 2005, as previously reported	1,100,550			296,683	1,397,233
Prior period adjustment				(464)	(464)
July 1, 2005, as restated	<u>1,100,550</u>			<u>296,219</u>	<u>1,396,769</u>
Increase in reserve for Inventory				3,768	3,768
June 30, 2006	<u>\$ 1,112,181</u>	<u>-</u>	<u>-</u>	<u>405,348</u>	<u>1,517,529</u>

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

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

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ 116,992
Amounts reported for governmental activities in the statement of activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchase amounted to \$1,682,982 and the depreciation expense amounted to \$268,381. (Note 5)	1,414,601
2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Activities. (Note 6)	473,535
3. Governmental funds recognize interest on long-term debt when it becomes due, however, the Statement of Activities recognizes interest as it accrues regardless of when it becomes due.	4,493
4. In the statement of activities, only gains and losses from the sale of capital assets are reported, whereas in governmental funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by the following items:	
Proceeds from sales of capital assets	(500)
Losses on sales of capital assets	(2,003)
5. Expenses in the Statement of Activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds:	
Decrease in accrued compensated absences	(1,451)
6. Increase in inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are increased in the Statement of Activities.	3,768
7. The issuance of long-term debt provides current financial resources to governmental funds, but the issuance increases long-term liabilities in the statement of net assets	<u>(1,480,000)</u>
Change in Net Assets of Governmental Activities	\$ <u>529,435</u>

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

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents (Note 3)	\$ 364,572
Other receivable	<u>1,694</u>
Total Assets	<u>\$ 366,266</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 330,269
Due to student clubs	<u>35,997</u>
Total Liabilities	<u>\$ 366,266</u>
Net Assets	
Total Net Assets	<u>\$ -</u>

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

PHILADELPHIA PUBLIC SCHOOL DISTRICT

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

(1) Summary of Significant Accounting Policies

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

A. Financial Reporting Entity.

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

B. Basis of Presentation.

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

Government-wide Financial Statements:

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

The Statement of Net Assets presents the financial condition of the governmental activities of the school district at year-end. The Government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the school district's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the

PHILADELPHIA PUBLIC SCHOOL DISTRICT

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

program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the school district, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the school district.

Fund Financial Statements:

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

C. Measurement Focus and Basis of Accounting.

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

In the fund financial statements, governmental funds 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 60 days after year end. Property taxes, state appropriations and federal awards associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

The school district reports the following major governmental funds:

PHILADELPHIA PUBLIC SCHOOL DISTRICT

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

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.

Physical Education Grant Fund – This fund accounts for the federal grant money received and expenditures made in accordance with the “Physical Education Grant Fund” Program. The purpose of this grant is to initiate, expand, and improve physical education programs for K-12 students in order to help them make progress toward meeting state standards for physical education.

Capital Building Fund - This fund is used to account for financial resources to be used for the purchase, construction and/or major renovation of the school district’s facilities.

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

FIDUCIARY FUNDS

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

PHILADELPHIA PUBLIC SCHOOL DISTRICT

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

D. Account Classifications.

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

E. Encumbrances.

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

F. Cash and Cash Equivalents.

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

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

G. Investments.

The school district can invest its excess funds, as permitted by Sections 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).

PHILADELPHIA PUBLIC SCHOOL DISTRICT

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

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

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

I. Capital Assets.

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

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

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

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

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

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

PHILADELPHIA PUBLIC SCHOOL DISTRICT

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

J. Long-term Liabilities.

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

K. Interfund Transactions and Balances.

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

Short-term (due within one year) interfund loan receivables are reported as "due from other funds" and are considered available expendable resources.

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

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

L. Equity Classifications.

Government-wide Financial Statements:

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

1. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

PHILADELPHIA PUBLIC SCHOOL DISTRICT

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

2. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Financial Statements:

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

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

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

Reserved for ad valorem – An account used to record the ad valorem taxes collected in excess of legal limitations for the current fiscal year.

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

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

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

PHILADELPHIA PUBLIC SCHOOL DISTRICT

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

M. Property Taxes.

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

N. Mississippi Adequate Education Program Revenues.

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

O. Compensated Absences.

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

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

(2) Changes in Accounting Standards.

As required, the Philadelphia Public 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.

PHILADELPHIA PUBLIC SCHOOL DISTRICT

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

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

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

Cash and Cash Equivalents. The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$1,009,602 and \$364,752, respectively. The carrying amount of deposits reported in the government-wide financial statements was: cash and cash equivalents - \$946,866 and restricted assets - \$62,736. The restricted assets of \$62,736 represent the cash balance of the MAEP funds (other governmental funds) which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$2,690,723.

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 formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2006, \$0 of the district's bank balance of \$2,690,723 was exposed to custodial credit risk.

Cash with Fiscal Agents.

The carrying amount of the school district's cash with fiscal agents held by financial institutions was \$62,736.

PHILADELPHIA PUBLIC SCHOOL DISTRICT

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

(4) Interfund Transactions and Balances.

The following is a summary interfund transactions and balances:

A. Due from/To Other Funds:

	<u>Due From</u>	<u>Due To</u>
Governmental Funds:		
General Fund	\$ 233,540	
Physical Education Grant Fund		68,045
Other governmental funds	-	<u>165,495</u>
Total	\$ <u>233,540</u>	<u>233,540</u>

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

B. Transfers In/Out

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
General Fund	\$ 162,479	8,496
Physical Education Grant Fund		65,743
Other governmental funds	<u>39,175</u>	<u>127,415</u>
Total	\$ <u>201,654</u>	<u>201,654</u>

The purpose of interfund transfers are to transfer federal program indirect cost to the General Fund and to close-out federal program funds at year end. These transfers are consistent with the activities of the fund making the transfer.

(5) Capital Assets.

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

PHILADELPHIA PUBLIC SCHOOL DISTRICT

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

	<u>Balance</u> <u>7/1/05</u>	<u>Additions</u>	<u>Retire-</u> <u>ments</u>	<u>Completed</u> <u>Construction</u>	<u>Balance</u> <u>6/30/06</u>
<u>Non-depreciable capital assets:</u>					
Land	\$ 144,183	3,500			147,683
Construction in progress	<u>412,345</u>	<u>1,564,389</u>	-	<u>(1,951,464)</u>	<u>25,270</u>
Total non-depreciable capital assets	<u>556,528</u>	<u>1,567,889</u>	-	<u>(1,951,464)</u>	<u>172,953</u>
<u>Depreciable capital assets:</u>					
Buildings	8,562,678			1,951,464	10,514,142
Improvements other than buildings	400,627				400,627
Mobile equipment	675,401	78,281	(24,527)		729,155
Furniture and equipment	<u>192,956</u>	<u>36,812</u>	<u>(5,000)</u>	-	<u>224,768</u>
Total depreciable capital assets	<u>9,831,662</u>	<u>115,093</u>	<u>(29,527)</u>	-	<u>11,868,692</u>
<u>Less accumulated depreciation for:</u>					
Buildings	\$ 2,044,277	193,970			2,238,247
Improvements other than buildings	292,163	12,094			304,257
Mobile equipment	386,935	48,247	(22,074)		413,108
Furniture and equipment	<u>175,366</u>	<u>14,070</u>	<u>(4,950)</u>	-	<u>184,486</u>
Total accumulated depreciation	<u>2,898,741</u>	<u>268,381</u>	<u>(27,024)</u>	-	<u>3,140,098</u>
Total depreciable capital assets, net	<u>6,932,921</u>	<u>(153,288)</u>	<u>(2,503)</u>	<u>1,951,464</u>	<u>8,728,594</u>
Governmental activities capital assets, net	\$ <u>7,489,449</u>	<u>1,414,151</u>	<u>(2,503)</u>	-	<u>8,901,547</u>

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$ 184,653
Support services	67,054
Non-instructional	<u>16,674</u>
Total Depreciation Expense	\$ <u>268,381</u>

PHILADELPHIA PUBLIC SCHOOL DISTRICT

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

(6) Long-term Liabilities.

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

	<u>Balance</u> <u>7/1/05</u>	<u>Additions</u>	<u>Re-</u> <u>ductions</u>	<u>Adjust-</u> <u>ments</u>	<u>Balance</u> <u>6/30/06</u>	<u>Due Within</u> <u>One Year</u>
A. General obligation bonds payable	\$ 2,255,000		130,000		2,125,000	140,000
B. Limited obligation bonds payable	1,835,000		95,000		1,740,000	105,000
C. Certificates of participation payable	303,000		20,000		283,000	21,000
D. Three mill notes payable		80,000			80,000	80,000
E. Qualified Zone academy bonds payable		1,200,000			1,200,000	
F. Other loans payable	28,535	200,000	228,535			-
G. Compensated absences payable	<u>37,143</u>	<u>1,451</u>	<u>-</u>	<u>-</u>	<u>38,594</u>	<u>-</u>
Total	<u>\$ 4,458,678</u>	<u>1,481,451</u>	<u>473,535</u>	<u>-</u>	<u>5,466,594</u>	<u>346,000</u>

A. General Obligation Bonds Payable.

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

<u>Description</u>	<u>Interest</u> <u>Rate</u>	<u>Issue</u> <u>Date</u>	<u>Maturity</u> <u>Date</u>	<u>Amount</u> <u>Issued</u>	<u>Amount</u> <u>Out-</u> <u>standing</u>
General obligation bonds, Series 1998	Varies	6/1/1998	6/1/2018	\$ <u>3,000,000</u>	<u>2,125,000</u>
Total				\$ <u>3,000,000</u>	<u>2,125,000</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	\$ 140,000	98,363	238,363
2008	145,000	92,202	237,202
2009	150,000	85,822	235,822
2010	160,000	79,073	239,073
2011	165,000	71,873	236,873
2012-2016	975,000	233,888	1,208,888
2017-2018	<u>390,000</u>	<u>25,755</u>	<u>415,755</u>
Total	\$ <u>2,125,000</u>	<u>686,976</u>	<u>2,811,976</u>

PHILADELPHIA PUBLIC SCHOOL DISTRICT

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

The amount of bonded indebtedness that can be incurred by the school district is limited by state statute. Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in state statutes have been met. As of June 30, 2006, the amount of outstanding bonded indebtedness was equal to 9.29% of property assessments as of October 1, 2005. This debt will be retired from the Debt Service General Obligation Fund.

B. Limited Obligation Bonds Payable.

Limited obligation bonds are direct obligations and pledge the full faith and credit of the school district. Limited obligations 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 bonds Series 1998	varies	2/1/1998	2/1/2018	\$ 2,215,000	1,740,000
Total				\$ 2,215,000	1,740,000

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	\$ 105,000	77,017	182,017
2008	110,000	71,206	181,206
2009	110,000	66,225	176,225
2010	120,000	61,220	181,220
2011	125,000	55,830	180,830
2012-2016	695,000	188,373	883,373
2017-2018	475,000	29,025	504,025
Total	\$ 1,740,000	548,896	2,288,896

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

PHILADELPHIA PUBLIC SCHOOL DISTRICT

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

C. Certificates of Participation Payable.

As more fully explained in Note 9, certificates of participation have been issued by the school district. Certificates of participation 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 Out-standing</u>
Philadelphia Public Schools trust certificates	Varies	9/1/1995	9/1/2015	\$ <u>433,000</u>	<u>283,000</u>
Total				\$ <u>433,000</u>	<u>283,000</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	\$ 21,000	17,894	38,894
2008	22,000	16,550	38,550
2009	24,000	15,082	39,082
2010	25,000	13,490	38,490
2011	27,000	11,800	38,800
2012-2016	<u>164,000</u>	<u>27,695</u>	<u>191,695</u>
Total	\$ <u>283,000</u>	<u>102,511</u>	<u>385,511</u>

This debt will be retired from the Debt Service Certificates of Participation Fund.

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 Out-standing</u>
Three mill notes payable	3.19%	9/08/2005	9/08/2006	\$ <u>80,000</u>	<u>80,000</u>
Total				\$ <u>80,000</u>	<u>80,000</u>

This debt will be retired from the Debt Service Three Mill Fund.

PHILADELPHIA PUBLIC SCHOOL DISTRICT

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

E. Qualified Zone Academy Bonds Payable

As more fully explained in Note 10, debt has been issued by the school district that qualifies as Qualified Zone Academy bonds. Debt currently outstanding is as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Qualified Zone Academy bond	0%	12/29/2005	12/29/2015	\$ 1,200,000	<u>1,200,000</u>
Total				\$ <u>1,200,000</u>	<u>1,200,000</u>

F. Other Loans Payable.

The school district has issued debt instruments granted under the authority of Section 37-41-89, Miss. Code Ann. (1972).

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>
Notes payable - Merchants and Farmers Bank	5.22%	6/13/2001	6/13/2006	\$ 129,000	-
Total				\$ <u>129,000</u>	<u>-</u>

The school district also had short term borrowings from Merchants and Farmers Bank in the amount of \$200,000 during fiscal year ending June 30, 2006. This debt was retired during fiscal year ending June 30, 2006.

This debt was retired from the District Maintenance Fund.

G. Compensated Absences Payable.

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

PHILADELPHIA PUBLIC SCHOOL DISTRICT

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

(6) Defined Benefit Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The current rate is 10.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2006, 2005, and 2004 were \$542,928, \$476,519, and \$440,246, respectively, which equaled the required contributions for each year.

(7) Other Commitments.

Operating leases:

The school district has several operating leases for the following:

1. Postage meter
2. Duplicator
3. Drivers Ed car
4. (4) Digital copiers

Lease expenditures for the year ended June 30, 2006, amounted to \$14,053. Future lease payments for these leases are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2007	\$ 6,114
2008	<u>3,858</u>
Total	\$ <u>9,972</u>

PHILADELPHIA PUBLIC SCHOOL DISTRICT

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

(8) Risk Management.

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

Participation in Public Entity Risk Pool

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

(9) Trust Certificates.

A trust agreement dated September 1, 1985, was executed by and between the school district and The Citizens Bank of Philadelphia, as trustees.

The trust agreement authorized the issuance of trust certificates in the principal amount of \$433,000. The amount of \$418,328 was used to provide financing for the construction and renovation of school buildings and related facilities and equipment (the "project"); the remainder of \$14,672 was used to pay the cost of issuance.

PHILADELPHIA PUBLIC SCHOOL DISTRICT

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

The project is leased to the school district in accordance with the provisions of the Emergency School Leasing Authority Act as described in Section 37-7-351, *et seq.*, Miss Code Ann. (1972). The lease represents a capital lease under which ownership of the project will transfer to the school district upon complete retirement of the trust certificates. The school district is obligated to make lease payments to the trustee in an amount equal to the debt service requirements for the trust certificates. The lease rental payments by the school district are used by the trustee to pay the principal and interest payments due on the trust certificates.

It is not anticipated the project will have sufficient value to satisfy the certificates in the event the school district defaults under the lease; therefore, the source of payment of the certificates is the responsibility of the school district. See Note 5 for the details regarding the debt service requirements on the trust certificates.

Using the guidance provided in Section 2100 of the *Codification of Governmental Accounting and Financial Reporting Standards* dealing with defining the reporting entity, the trust accounts created by this trust agreement were deemed to constitute an inseparable part of the school district. Therefore, the assets, liabilities, equity, revenues, expenditures and other financing sources/uses of the trust accounts created by this trust agreement are part of the school district's financial statements, thereby eliminating the effects of the lease agreement for financial reporting purposes.

(10) **Qualified Zone Academy Bonds.**

Section 226 of the Taxpayer Relief Act of 1997 (Public Law 105-34) provides for a source of capital at no or nominal interest rates for costs incurred by certain public schools in connection with the establishment of special academic programs from kindergarten through secondary school, in partnership with the business community. The school district, in agreement with W.C. Yates Construction, Inc., Turner Engineering Services, Barnett Mechanical and Electrical Contractors, Inc., and Wenzel and Associates, P.A. for at least a 10% matching contribution, has entered into such an arrangement dated 12/29/2005.

This agreement establishes a method of repayment for a qualified interest-free debt instrument. The agreement requires the school district to deposit funds annually into a sinking fund account on or before March 1 of each year beginning in 2007 and ending in 2015. The amount accumulated in the sinking fund at the end of the ten-year period will be sufficient to retire the debt. The following schedule reports the yearly deposits to be made to the sinking fund by the school district.

PHILADELPHIA PUBLIC SCHOOL DISTRICT

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

<u>Year Ending June 30</u>	<u>Amount</u>
2007	\$ 107,000
2008	107,000
2009	107,000
2010	107,000
2011	107,000
2012-2016	<u>428,383</u>
 Total	 \$ <u>963,383</u>

(11) Other Commitments.

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

<u>Description</u>	<u>Remaining Commitment</u>	<u>Required Future Financing</u>
High School fire damage repair	\$ <u>217,080</u>	<u>-</u>

(12) Short-term Financing.

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

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

<u>Description</u>	<u>Balance 7/1/2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2006</u>
Note Payable				
Merchants and Farmers Bank	<u>-</u>	\$ <u>200,000</u>	<u>200,000</u>	<u>-</u>

PHILADELPHIA PUBLIC SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

PHILADELPHIA PUBLIC SCHOOL DISTRICT
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variances Positive (Negative)</u>	
	<u>Original</u>	<u>Final</u>		<u>Original to Final</u>	<u>Final to Actual</u>
	Revenues:				
Local sources	\$ 2,040,300	2,339,392	2,301,156	299,092	(38,236)
State sources	4,424,868	4,418,061	4,415,699	(6,807)	(2,362)
Federal sources	41,000	106,000	83,526	65,000	(22,474)
Total Revenues	<u>6,506,168</u>	<u>6,863,453</u>	<u>6,800,381</u>	<u>357,285</u>	<u>(63,072)</u>
Expenditures:					
Instruction	4,659,588	4,557,339	4,438,324	102,249	119,015
Support services	2,242,431	2,603,350	2,442,599	(360,919)	160,751
Noninstructional services	3,000	1,794	294	1,206	1,500
Facilities acquisition and construction	34,000	366,807	362,807	(332,807)	4,000
Debt Service:					
Principal	25,718	30,141	28,535	(4,423)	1,606
Interest			1,607		(1,607)
Total Expenditures	<u>6,964,737</u>	<u>7,559,431</u>	<u>7,274,166</u>	<u>(594,694)</u>	<u>285,265</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(458,569)</u>	<u>(695,978)</u>	<u>(473,785)</u>	<u>(237,409)</u>	<u>222,193</u>
Other Financing Sources (Uses):					
Insurance loss recoveries		330,933	330,933	330,933	
Sale of transportation equipment		500	500	500	
Operating transfers in	180,971	218,210	162,479	37,239	(55,731)
Operating transfers out	(457,026)	(8,496)	(8,496)	448,530	
Total Other Financing Sources (Uses)	<u>(276,055)</u>	<u>541,147</u>	<u>485,416</u>	<u>817,202</u>	<u>(55,731)</u>
Net Change in Fund Balances	<u>(734,624)</u>	<u>(154,831)</u>	<u>11,631</u>	<u>579,793</u>	<u>166,462</u>
Fund Balances:					
July 1, 2005	<u>1,234,673</u>	<u>1,100,550</u>	<u>1,100,550</u>	<u>(134,123)</u>	<u>-</u>
June 30, 2006	<u>\$ 500,049</u>	<u>945,719</u>	<u>1,112,181</u>	<u>445,670</u>	<u>166,462</u>

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

PHILADELPHIA PUBLIC SCHOOL DISTRICT
Budgetary Comparison Schedule
Physical Education Grant Fund
For the Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variances Positive (Negative)</u>	
	<u>Original</u>	<u>Final</u>		<u>Original to Final</u>	<u>Final to Actual</u>
Revenues:					
Local sources	\$				
State sources					
Federal sources	160,224	242,479	191,409	82,255	(51,070)
Total Revenues	<u>160,224</u>	<u>242,479</u>	<u>191,409</u>	<u>82,255</u>	<u>(51,070)</u>
Expenditures:					
Instruction	135,473	170,736	119,666	(35,263)	51,070
Support services		6,000	6,000	(6,000)	
Noninstructional services					
Total Expenditures	<u>135,473</u>	<u>176,736</u>	<u>125,666</u>	<u>(41,263)</u>	<u>51,070</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>24,751</u>	<u>65,743</u>	<u>65,743</u>	<u>40,992</u>	<u>-</u>
Other Financing Sources (Uses):					
Operating transfers in					
Operating transfers out	(24,751)	(65,743)	(65,743)	(40,992)	-
Total Other Financing Sources (Uses)	<u>(24,751)</u>	<u>(65,743)</u>	<u>(65,743)</u>	<u>(40,992)</u>	<u>-</u>
Net Change in Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:					
July 1, 2005	-	-	-	-	-
June 30, 2006	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

PHILADALPHIA PUBLIC SCHOOL DISTRICT

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

Notes to the Required Supplementary Information

Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(2) Budget Amendments and Revisions.

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

PHILADALPHIA PUBLIC SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

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

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog Of Federal Domestic Assistance No.	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	\$ 29,523
Child nutrition cluster:		
School breakfast program	10.553	96,391
National school lunch program	10.555	319,167
Total Child Nutrition Cluster		415,558
Total U.S. Department of Agriculture		445,081
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.XXX	16,023
Total Federal Communications Commission		16,023
<u>U.S. Department of Health and Human Services</u>		
Passed-through Mississippi Department of Health and Human Services:		
Medical Assistance Program	93.778	35,354
Total passed-through Mississippi Department of Health and Human Services		35,354
Total U.S. Department of Health and Human Services		35,354
<u>U.S. Department of Education</u>		
Direct Program:		
Carol M. White physical education program	84.215F	191,409
Total		191,409
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	558,959
Vocational Education - basic grants to states	84.048	16,602
Safe and drug-free schools and communities - state grants	84.186	11,783
Funds for improvement of education	84.215	339,156
Twenty-first century community learning centers	84.287	132,228
Innovative education program strategies	84.298	4,021
Education technology state grants	84.318	79,818
Hurricane Education Recovery	84.938	85,216
Rural Education	84.358	54,205
Improving teacher quality - state grants	84.367	136,055
Total		1,418,043
Special Education Cluster:		
Special education - grants to states	84.027	214,322
Special education - preschool grants	84.173	19,881
Total		234,203
Total passed-through Mississippi Department of Education		1,652,246
Total U.S. Department of Education		1,843,655
Total for All Federal Awards		\$ 2,340,113

NOTES TO SCHEDULE

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

PHILADELPHIA PUBLIC 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 Administration</u>	<u>School Administration</u>	<u>Other</u>
Salaries and fringe benefits	\$ 6,848,017	5,443,977	345,838	399,602	658,600
Other	4,847,182	1,162,683	92,106	32,294	3,560,099
Total	<u>\$ 11,695,199</u>	<u>6,606,660</u>	<u>437,944</u>	<u>431,896</u>	<u>4,218,699</u>
Total number of students	1,115				
Cost per student	\$ 10,489	5,925	393	387	3,784

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

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

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

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

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

PHILADELPHIA PUBLIC SCHOOL DISTRICT

REPORTS ON COMPLIANCE AND INTERNAL CONTROL



WATKINS, WARD and STAFFORD

Professional Limited Liability Company
Certified Public Accountants

James L. Stafford, CPA
Harry W. Stevens, CPA
Paul A. Ray, CPA
S. Keith Winfield, CPA
William B. Stagers, CPA
Aubrey R. Holder, CPA
David M. Howell, CPA
Michael W. McCully, CPA
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Marsha L. McDonald, CPA
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Kimberly S. Caskey, CPA
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Thomas J. Browder, CPA
Stephen D. Flake, CPA
John N. Russell, CPA
Kenny Dickerson, CPA

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

Superintendent and School Board
Philadelphia Public School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Philadelphia Public School District as of and for the year ended June 30, 2006, which collectively comprise the Philadelphia Public School District basic financial statement and have issued our report thereon dated January 10, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the school district's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did not note any matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Others Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an

opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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.

Watkins, Ward and Stafford, PLLC
Philadelphia, Mississippi
January 10, 2007

Watkins, Ward and Stafford, PLLC



WATKINS, WARD and STAFFORD
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Certified Public Accountants

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

Superintendent and School Board
Philadelphia Public School District

Compliance

We have audited the compliance of the Philadelphia Public School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2006. The school district's major federal program is identified in the summary of auditors' results section of the Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program 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, Philadelphia Public 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 Philadelphia Public School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the school district's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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 laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did not note any matters involving internal control over compliance and its operation that we consider to be material weaknesses.

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

Watkins, Ward and Stafford, PLLC
Philadelphia, Mississippi
January 10, 2007

Watkins, Ward and Stafford, PLLC

PHILADELPHIA PUBLIC SCHOOL DISTRICT

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
STATE LAWS AND REGULATIONS**



WATKINS, WARD and STAFFORD
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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
 WITH STATE LAWS AND REGULATIONS**

Superintendent and School Board
 Philadelphia Public School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Philadelphia Public School District as of and for the year ended June 30, 2006, which collectively comprise the Philadelphia Public School District basic financial statement and have issued our report thereon dated January 10, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$1,182 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.

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.

Watkins, Ward & Stafford, PLLC
Philadelphia, Mississippi
January 10, 2007

Watkins, Ward and Stafford, PLLC

PHILADELPHIA PUBLIC SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PHILADELPHIA PUBLIC SCHOOL DISTRICT

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

Section 1: Summary of Auditors' Results

Financial Statements:

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

Federal Awards:

- | | |
|--|-------------|
| 4. Type of auditors' report issued on compliance for major federal programs: | Unqualified |
| 5. Internal control over major programs: | |
| a. Material weakness(es) identified? | No |
| b. Reportable condition(s) identified that are not considered to be material weaknesses? | No |
| 6. Any audit finding(s) reported as required by Section __.510(a) of Circular A-133? | No |
| 7. Federal programs identified as major programs: | |
| a. Title I Grants to Local Education Agencies:
CFDA #84.010 | |
| b. Improving Teacher Quality – State Grants
CFDA #84.367 | |

PHILADELPHIA PUBLIC SCHOOL DISTRICT

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

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

Section 2: Financial Statement Findings

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

Section 3: Federal Award Findings and Questioned Costs

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

PHILADELPHIA PUBLIC SCHOOL DISTRICT

AUDITEES' CORRECTIVE ACTION PLAN

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Financial and Compliance Audit Division

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

There are no applicable prior year audit findings, therefore, no follow-up corrective action required.