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**Hazlehurst City School District
Financial Statements
For the Year Ended
June 30, 2007**

**Hazlehurst City School District
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HAZLEHURST CITY SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

PATRICK E. LOWERY AND ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

*Member of Mississippi Society
of Certified Public Accountants*

215 SOUTH RAILROAD AVENUE
BROOKHAVEN, MISSISSIPPI 39601

PHONE (601) 833-1456

FAX (601) 833-9896

EMAIL: plowery3@bellsouth.net

*Member of American Institute
of Certified Public Accountants*

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

Superintendent and School Board
Hazlehurst City School District

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Hazlehurst City School District as of and for the year ended June 30, 2007, which collectively comprise the Hazlehurst City School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Hazlehurst City School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Hazlehurst City School District, as of June 30, 2007, 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 November 11, 2008, on our consideration of the Hazlehurst City School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 4 through 13 and the Budgetary Comparison Schedule and corresponding notes on pages 39 through 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 required supplementary information. However, we did not audit the information and express no opinion on it.

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



Patrick E. Lowery and Associates
Certified Public Accountants

November 11, 2008

HAZLEHURST CITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

HAZLEHURST CITY SCHOOLS

119 Robert McDaniel Drive

Hazlehurst, MS 39083

Phone Number: (601) 894.1152

Fax Number: (601) 894.3170

The discussion and analysis of the Hazlehurst City School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2007. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the District's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

FINANCIAL HIGHLIGHTS

- Total net assets, including the effect of prior period adjustments, increased \$302,126, which represents a 12% increase from fiscal year 2006. This increase in net assets is primarily due to the repayment of debt principal in the amount of \$503,526 not being reported as an expense in the Statement of Activities but as a reduction of long-term liabilities on the Statement of Net Assets.
- General revenues accounted for \$9,728,911 in revenue, or 78% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$2,729,248, or 22% of total revenues.
- The District had \$12,100,817 in expenses; only \$2,729,248 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$9,728,911 were adequate to provide for these programs.
- Among major funds, the General Fund had \$9,331,983 in revenues and \$9,070,796 in expenditures. After net other financing uses of \$524,463, the net change in fund balance for the General Fund was a decrease of \$263,276 from the previous fiscal year.
- Capital assets, net of accumulated depreciation, decreased by \$122,295 due primarily to the current year depreciation of the capital assets.
- Long-term debt decreased by \$524,793 due to principal payments made during the fiscal year on existing long-term debt and the decrease in the liability for compensated absences.

HAZLEHURST CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

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

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

HAZLEHURST CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$2,756,970 as of June 30, 2007.

HAZLEHURST CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007

The district's net assets are comprised of 1) net assets invested in capital assets, net of related debt, 2) restricted net assets and 3) unrestricted net assets. \$2,196,703 of the District's net assets reflects its investment in capital assets (e.g., land, buildings, building improvements, mobile equipment and furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending. \$784,556 of the District's net assets reflects its restricted net assets. A portion of the restricted net assets is expendable for school based activities, debt service, forestry improvements and unemployment benefits. The remaining portion of the restricted net assets is nonexpendable for 16th section investment purposes and scholarships. The unrestricted portion of the District's net assets is a negative amount of \$224,289. This negative amount is a result of the negative fund balance of the General Fund at fiscal year end and the non-capital related debt outstanding at year end.

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

The following table presents a summary of the District's net assets for the fiscal year ended June 30, 2007 and comparative data for the fiscal year ended June 30, 2006.

	Net Assets		Percentage
	June 30, 2007	June 30, 2006	Change
Current assets	\$ 1,272,656	\$ 1,533,899	(17.0) %
Other assets	108,105	107,896	0.2 %
Capital assets, net	<u>2,824,003</u>	<u>2,946,298</u>	(4.2) %
Total assets	<u>4,204,764</u>	<u>4,588,093</u>	(8.4) %
Current liabilities	744,079	904,741	(17.8) %
Long-term debt outstanding	<u>703,715</u>	<u>1,228,508</u>	(42.7) %
Total liabilities	<u>1,447,794</u>	<u>2,133,249</u>	(32.1) %
Net assets:			
Invested in capital assets, net of related debt	2,196,703	1,840,998	19.3 %
Restricted	784,556	643,497	21.9 %
Unrestricted	<u>(224,289)</u>	<u>(29,651)</u>	(656.4) %
Total net assets	<u>\$ 2,756,970</u>	<u>2,454,844</u>	12.3 %

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

- Current assets decreased from the previous fiscal year due primarily to a decrease in amounts due from other governments. In the previous fiscal year, the District reported amounts due from the federal government related to the Displaced Student Grant resulting from Hurricane Katrina.

HAZLEHURST CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007

- Capital assets decreased from the previous fiscal year due primarily to the current year depreciation of the capital assets.
- Long-term debt outstanding decreased from the previous fiscal year due primarily to principal payments made during the fiscal year on existing long-term debt and the decrease in the liability for compensated absences.
- Net assets invested in capital assets, net of related debt, increased from the previous fiscal year due primarily to the reduction of long-term debt related to the capital assets.
- Restricted net assets increased from the previous fiscal year due primarily to an increase in amounts restricted for school based activities, debt service and forestry improvements.
- Unrestricted net assets decreased from the previous fiscal year due primarily to the deficiency of revenues and other financing sources over expenditures and other financing uses in the General Fund during the fiscal year resulting in a negative fund balance in the General Fund.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2007 were \$12,458,159. The total cost of all programs and services was \$12,100,817. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2007 and comparative data for the fiscal year ended June 30, 2006.

	<u>Change in Net Assets</u>		<u>Percentage Change</u>
	<u>June 30, 2007</u>	<u>June 30, 2006</u>	
Revenues:			
Program revenues:			
Charges for services	\$ 321,175	\$ 372,483	(13.8) %
Operating grants and contributions	2,408,073	2,717,273	(11.4) %
General revenues:			
Property taxes	2,193,380	2,266,444	(3.2) %
Grants and contributions not restricted	7,225,467	6,652,410	8.6 %
Other	<u>310,064</u>	<u>379,568</u>	(18.3) %
Total revenues	<u>12,458,159</u>	<u>12,388,178</u>	0.6 %
Expenses:			
Instruction	7,064,980	7,041,473	0.3 %
Support services	3,860,375	3,797,652	1.7 %
Non-instructional	1,077,712	1,044,802	3.1 %
Sixteenth section	63,628	48,474	31.3 %
Interest and other expenses on long-term liabilities	<u>34,122</u>	<u>55,375</u>	(38.4) %
Total expenses	<u>12,100,817</u>	<u>11,987,776</u>	0.9 %
Increase (Decrease) in net assets	357,342	400,402	(10.8) %

HAZLEHURST CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007

Net Assets, July 1	2,454,844	2,056,542	19.4 %
Prior Period Adjustments	<u>(55,216)</u>	<u>(2,100)</u>	
Net Assets, Restated, July 1	<u>2,399,628</u>	<u>2,054,442</u>	16.8 %
Net Assets, June 30	<u>\$ 2,756,970</u>	<u>\$ 2,454,844</u>	12.3 %

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

- Program revenues decreased from the previous fiscal year due primarily to a decrease in operating grants and contributions. In the previous fiscal year, the District reported operating grants and contributions related to the Displaced Student Grant resulting from Hurricane Katrina.
- General revenues increased from the previous fiscal year due primarily to an increase in unrestricted state grants and contributions.

Governmental activities. The following table presents, for the fiscal year ended June 30, 2007 and comparative data for the fiscal year ended June 30, 2006, the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section and interest and other expenses on long-term debt. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and District's taxpayers by each of these functions.

	<u>2007</u>		<u>2006</u>	
	<u>Total Expenses</u>	<u>Net (Expense) Revenue</u>	<u>Total Expenses</u>	<u>Net (Expense) Revenue</u>
Instruction	\$ 7,064,980	\$ (5,815,950)	\$ 7,041,473	\$ (5,502,189)
Support services	3,860,375	(3,384,680)	3,797,652	(3,277,551)
Non-instructional	1,077,712	(111,306)	1,044,802	(48,140)
Sixteenth section	63,628	(25,511)	48,474	(14,765)
Interest and other expenses on long-term liabilities	<u>34,122</u>	<u>(34,122)</u>	<u>55,375</u>	<u>(55,375)</u>
Total expenses	<u>\$ 12,100,817</u>	<u>\$ (9,371,569)</u>	<u>\$ 11,987,776</u>	<u>\$ (8,898,020)</u>

- The net cost of governmental activities for fiscal year 2007 in the amount of \$9,371,569 was financed by general revenue, which is made up of primarily property taxes of \$2,193,380 and state revenue of \$7,225,467.
- Investment earnings accounted for \$12,255 of funding.

HAZLEHURST CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed fiscal year June 30, 2007, its governmental funds reported a combined fund balance of \$650,517. The net change in fund balance for the fiscal year, excluding prior period adjustments and the decrease in the reserve for inventory, was a decrease of \$50,243. \$325,102, or 50%, of the fund balance is reported by fund type in the unreserved, undesignated section of the Governmental Funds Balance Sheet. Included in this section of the Balance Sheet is the negative fund balance in the General Fund in the amount of \$147,874 resulting from the deficiency of revenues and other financing sources over expenditures and other financing uses during the fiscal year. The portion of the fund balance reported in the Special Revenue Funds will be used for school based activities. The remaining fund balance of \$325,415, or 50%, is reserved or designated to indicate that it is not available for spending because it has already been committed. This portion of the fund balance is reserved for advances, inventory, unemployment benefits, forestry improvements, debt service purposes and permanent fund purposes.

The General Fund is the principal operating fund of the District. The net change in fund balance for the General Fund for the fiscal year was a decrease of \$263,276 due to the deficiency of revenues and other financing sources over expenditures and other financing uses during the fiscal year causing a negative fund balance at fiscal year end. The net change in fund balance for the Child Nutrition Fund for the fiscal year was a decrease of \$113,119 due to the deficiency of revenues and other financing sources over expenditures and other financing uses during the fiscal year which also caused a negative fund balance at fiscal year end. The net change in fund balance for the 16th Section Interest Fund for the fiscal year was an increase of \$218,526 due to sixteenth section sources generated during the fiscal year primarily from the sale of timber and sixteenth section leases. The net change in fund balance for the Other Governmental Funds for the fiscal year was an increase of \$107,626 due to the excess of revenues and other financing sources over expenditures and other financing uses in various funds.

BUDGETARY HIGHLIGHTS

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

HAZLEHURST CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007

- Budgeted amounts for revenue from local sources in the General Fund were decreased to more accurately reflect local sources received during the fiscal year. The original budgeted amounts were overstated.
- Budgeted amounts for instructional expenditures in the General Fund were decreased during the fiscal year. However, actual instructional expenditures exceeded the final budgeted amounts for the General Fund at fiscal year end.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2007, the District's total capital assets, before depreciation, were \$6,554,654, including land, buildings, building improvements, mobile equipment and furniture and equipment. Total depreciation expense for the year was \$145,488. Total accumulated depreciation as of June 30, 2007 was \$3,730,651, resulting in total net capital assets of \$2,824,003.

	<u>Capital Assets, Net of Depreciation</u>		Percentage <u>Change</u>
	<u>2007</u>	<u>2006</u>	
Land	\$ 25,000	\$ 25,000	0.0 %
Buildings	2,296,052	2,367,637	(3.0) %
Building improvements	69,656	73,525	(5.3) %
Mobile equipment	404,077	465,073	(13.1) %
Furniture and equipment	<u>29,218</u>	<u>15,063</u>	94.0 %
Total	<u>\$ 2,824,003</u>	<u>\$ 2,946,298</u>	(4.2) %

Debt Administration. At June 30, 2007, the District had \$703,715 in general and limited obligation bonds and other long-term debt outstanding, of which \$455,821 is due within one year. During the fiscal year, the District made principal payments in the amount of \$503,526 on existing long-term debt.

	<u>Outstanding Debt</u>		Percentage <u>Change</u>
	<u>2007</u>	<u>2006</u>	
General obligation bonds payable	\$ 170,000	\$ 360,000	(52.8) %
Limited obligation bonds payable	235,000	460,000	(48.9) %
Three mill notes payable	0	18,000	(100.0) %
Transportation equipment loans payable	222,300	267,300	(16.8) %
Other loans payable	0	25,526	(100.0) %
Compensated absences payable	<u>76,415</u>	<u>97,682</u>	(21.8) %
Total	<u>\$ 703,715</u>	<u>\$ 1,228,508</u>	(42.7) %

**HAZLEHURST CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007**

CURRENT ISSUES

The fund balance of the General Fund decreased from the previous fiscal year resulting in a negative fund balance of \$147,874. The Child Nutrition Fund also ended the fiscal year with a negative fund balance of \$150,129. Management of the School District has expressed some concern for the financial future of the District. Some of the most critical concerns are the increase in the employers match to the Public Employee's Retirement System and the School District having to assume responsibility for a portion of the previously fully funded employee health insurance.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

HAZLEHURST CITY SCHOOL DISTRICT

FINANCIAL STATEMENTS

Hazlehurst City School District
Statement of Net Assets
June 30, 2007

Exhibit A

	<u>Primary Government</u>
	<u>Governmental</u>
	<u>Activities</u>
Assets	
Cash and cash equivalents	\$ 472,842
Investments	437,668
Due from other governments	346,417
Inventories	15,729
Restricted assets	108,105
Capital assets, not being depreciated:	
Land	25,000
Capital assets, net of accumulated depreciation	
Buildings	2,296,052
Building Improvements	69,656
Mobile equipment	404,077
Furniture and equipment	29,218
Total Assets	\$ <u>4,204,764</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 663,632
Due to other governments	900
Deferred revenue	65,712
Interest payable on long-term liabilities	13,835
Long-term liabilities, due within one year	
Capital related liabilities	452,000
Non-capital related liabilities	3,821
Long-term liabilities, due beyond one year	
Capital related liabilities	175,300
Non-capital related liabilities	72,594
Total Liabilities	\$ <u>1,447,794</u>
Net Assets	
Investment in capital assets, net of related debt	\$ 2,196,703
Restricted net assets:	
Expendable:	
School - based activities	488,705
Debt service	30,028
Forestry improvements	89,604
Unemployment benefits	55,160
Non-expendable:	
Sixteenth section	91,449
Other	29,610
Unrestricted	(224,289)
Total Net Assets	\$ <u>2,756,970</u>

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

Hazlehurst City School District
Statement of Activities
For the Year Ended June 30, 2007

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Primary Government
					Governmental Activities
Primary Government:					
Governmental Activities:					
Instruction	\$ 7,064,980	152,870	1,096,160	-	(5,815,950)
Support services	3,860,375	-	475,695	-	(3,384,680)
Non-instructional	1,077,712	130,188	836,218	-	(111,306)
Sixteenth section	63,628	38,117	-	-	(25,511)
Interest on long-term liabilities	34,122	-	-	-	(34,122)
Total governmental activities	\$ 12,100,817	321,175	2,408,073	-	(9,371,569)

General Revenues:

Taxes:

General purpose levies	1,930,395
Debt purpose levies	262,985

Unrestricted grants and contributions:

State	7,225,467
Unrestricted investment earnings	12,255
Sixteenth section sources	279,920
Other	17,889
Total General Revenues	9,728,911

Change in Net Assets 357,342

Net Assets - Beginning	2,454,844
Prior Period Adjustments	(55,216)
Net Assets - Beginning - Restated	2,399,628

Net Assets - Ending \$ 2,756,970

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

Hazlehurst City School District
 Balance Sheet - Governmental Funds
 June 30, 2007

Exhibit C

	Major Funds				
	General	Child	16th Section	Other	Total
	Fund	Nutrition	Interest	Governmental	Governmental
ASSETS	Fund	Fund	Fund	Funds	Funds
Cash and cash equivalents	\$ 224,667	6,384	1,625	348,271	580,947
Investments	437,668	-	-	-	437,668
Due from other governments	112,868	-	-	145,358	258,226
Due from other funds	174,066	4,747	549,488	231,485	959,786
Advance to other funds	-	-	-	12,954	12,954
Inventories	-	15,729	-	-	15,729
Total Assets	\$ 949,269	26,860	551,113	738,068	2,265,310
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	\$ 466,998	11,915	8,617	176,102	663,632
Due to other funds	617,191	165,074	-	90,230	872,495
Advances from other funds	12,954	-	-	-	12,954
Deferred revenue	-	-	-	65,712	65,712
Total Liabilities	1,097,143	176,989	8,617	332,044	1,614,793
Fund Balances:					
Reserved for:					
Advances	-	-	-	12,954	12,954
Inventory	-	15,729	-	-	15,729
Unemployment benefits	-	-	-	55,160	55,160
Forestry improvement	-	-	-	89,604	89,604
Debt service purposes	-	-	-	43,863	43,863
Permanent fund purposes	-	-	-	108,105	108,105
Unreserved:					
Undesignated, reported in:					
General fund	(147,874)	-	-	-	(147,874)
Special Revenue funds	-	(165,858)	542,496	96,338	472,976
Total Fund Balances	(147,874)	(150,129)	542,496	406,024	650,517
Total Liabilities and Fund Balances	\$ 949,269	26,860	551,113	738,068	2,265,310

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

Hazlehurst City School District
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2007

Exhibit C-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 650,517
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$3,730,651.	2,824,003
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds as follows.	
Long-term liabilities	(703,715)
Accrued interest on debt	<u>(13,835)</u>
Total Net Assets - Governmental Activities	\$ <u>2,756,970</u>

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

Hazlehurst City School District
 Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 For the Year Ended June 30, 2007

Exhibit D

	Major Funds			Other	Total
	General Fund	Child Nutrition Fund	16th Section Interest Fund	Governmental Funds	Governmental Funds
Revenues:					
Local sources	\$ 2,101,399	129,185	-	275,113	2,505,697
State sources	7,230,544	10,675	-	173,237	7,414,456
Federal sources	40	866,163	-	1,352,881	2,219,084
Sixteenth section sources	-	-	280,890	38,032	318,922
Total Revenues	9,331,983	1,006,023	280,890	1,839,263	12,458,159
Expenditures:					
Instruction	5,489,261	-	-	1,535,245	7,024,506
Support services	3,313,068	128,321	-	363,097	3,804,486
Noninstructional services	-	999,947	-	68,087	1,068,034
Sixteenth section	-	-	62,364	1,264	63,628
Debt service:					
Principal	250,526	-	-	253,000	503,526
Interest	17,941	-	-	26,281	44,222
Total Expenditures	9,070,796	1,128,268	62,364	2,246,974	12,508,402
Excess (Deficiency) of Revenues					
Over Expenditures	261,187	(122,245)	218,526	(407,711)	(50,243)
Other Financing Sources (Uses):					
Operating transfers in	-	23,702	-	533,108	556,810
Operating transfers out	(524,463)	(14,576)	-	(17,771)	(556,810)
Total Other Financing Sources (Uses)	(524,463)	9,126	-	515,337	-
Net Change in Fund Balances	(263,276)	(113,119)	218,526	107,626	(50,243)
Fund Balances:					
July 1, 2006, as previously reported	117,012	(31,997)	362,265	313,709	760,989
Prior period adjustments	(1,610)	-	(38,295)	(15,311)	(55,216)
July 1, 2006, as restated	115,402	(31,997)	323,970	298,398	705,773
Increase (Decrease) in reserve for inventory	-	(5,013)	-	-	(5,013)
June 30, 2007	\$ (147,874)	(150,129)	542,496	406,024	650,517

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

Hazlehurst City School District
 Reconciliation of the Governmental Funds Statement of Revenues,
 Expenditures and Changes in Fund Balances to the Statement of Activities
 For the Year Ended June 30, 2007

Exhibit D-1

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ (50,243)
Amounts reported for governmental activities in the statement of activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate these expenditures over the life of the assets. Capital asset purchases amounted to \$23,403 and the depreciation expense amounted to \$145,488.	(122,085)
2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of activity.	503,526
3. In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in governmental funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by the following item:	
Losses on sales of capital assets	(210)
4. Expenses in the statement of activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds:	
Compensated Absences	21,267
5. 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.	10,100
6. An increase (+)/decrease(-) in the reserve for inventory is reported as a direct increase/decrease to the fund balance in the governmental funds but is a decrease/increase in noninstructional service expenses in the Statement of Activities.	<u>(5,013)</u>
Change in Net Assets of Governmental Activities	\$ <u><u>357,342</u></u>

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

Hazlehurst City School District
Statement of Fiduciary Net Assets
June 30, 2007

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 87,291
Due from other funds	<u>900</u>
Total Assets	\$ <u>88,191</u>
Liabilities	
Due to other funds	<u>88,191</u>
Total Liabilities	\$ <u>88,191</u>

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

HAZLEHURST CITY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2007

(1) Summary of Significant Accounting Policies.

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

A. Financial Reporting Entity.

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

B. Basis of Presentation.

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

Government-wide Financial Statements:

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

The Statement of Net Assets presents the financial condition of the governmental activities of the school district at year-end. The Government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the school district's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the school district, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the school district.

Fund Financial Statements:

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

HAZLEHURST CITY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2007

C. Measurement Focus and Basis of Accounting.

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

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

The school district reports the following major governmental funds:

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

Child Nutrition Fund - This fund accounts for the Child Nutrition local, state and federal revenues that are received and the expenses associated with Child Nutrition.

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

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

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

HAZLEHURST CITY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2007

FIDUCIARY FUNDS

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

D. Account Classifications.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing and Financial Reporting* as issued in 2005 by the Government Finance Officers Association and are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 2003* issued by the U.S. Department of Education.

E. Encumbrances.

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

F. Cash and Cash Equivalents.

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

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

G. Investments.

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

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

Investments are reported at fair value.

H. Inventories.

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

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

I. Capital Assets.

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

HAZLEHURST CITY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2007

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.

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

(*) The threshold amount will correspond with the amounts for the asset classifications, as listed. See Note 4 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 5 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.

HAZLEHURST CITY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2007

Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 3 for details for interfund transactions, including receivables and payables at year-end.

L. Equity Classifications.

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

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

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

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

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

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

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

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

HAZLEHURST CITY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2007

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 only the compensated absence liability payable from expendable available financial resources only if the payable has matured, for example, an employee retires.

(2) Cash and Cash Equivalents and Investments.

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

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

Investments. Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to invest surplus funds in the types of investments authorized by Section 27-105-33 (d) and (e), Miss. Code Ann. (1972). This section permits the following types of investment: (a) certificates of deposits and interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, the principal and interest of which are fully guaranteed by the government or enumerated agency of the United States; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or interest in, and open-end or closed-end any management type investment company or investment trust approved by the State Treasurer and the Executive director of the Department of

HAZLEHURST CITY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2007

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 \$580,947 and \$87,291, respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and cash equivalents \$472,842 and Restricted Assets \$108,105. The Restricted Assets represents the cash balance of the 16th section Principal funds (Permanent Funds) which is legally restricted and scholarship funds, which may not be used for purposes that support the district's programs. As of June 30, 2007, \$0 of the district's bank balance of \$856,034 was exposed to custodial credit risk.

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

Investments.

As of June 30, 2007, the district had the following investments. All investments are in an internal investment pool.

<u>Investment Type</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Rating</u>
Certificates of deposit	1 to 5	<u>437,668</u>	Not rated
Subtotal		<u>437,668</u>	
Total Investments		<u>\$ 437,668</u>	

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

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

HAZLEHURST CITY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2007

(3) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

	Due From	Due To
Governmental funds:		
General fund	\$ 174,066	617,191
Child nutrition fund	4,747	165,074
16 th Section Interest fund	549,488	
Other Governmental Funds	231,485	90,230
Fiduciary Funds	900	88,191
Total	\$ 960,686	960,686

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

B. Advances To/From Other Funds:

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

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

Sixteenth section principal loans payable.

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

Year Ending June 30	Principal	Interest	Total
2008	9,523	1,183	10,706
2009	3,431	137	3,568
Total	\$ 12,954	1,320	14,274

HAZLEHURST CITY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2007

C. Transfers In/Out.

	<u>Transfer In</u>	<u>Transfers Out</u>
Governmental funds:		
General fund	\$	524,463
Child Nutrition fund	23,702	14,576
Other Governmental Funds	<u>533,108</u>	<u>17,771</u>
Total	<u>\$ 556,810</u>	<u>556,810</u>

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

HAZLEHURST CITY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2007

(4) Capital Assets.

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

	Balance 7-1-2006	Additions	Retirements	Completed Construction	Adjustments	Balance 6-30-2007
<u>Non-depreciable capital assets:</u>						
Land	\$ 25,000					25,000
Total non-depreciable capital assets	25,000	0	0	0	0	25,000
<u>Depreciable capital assets:</u>						
Buildings	4,621,662					4,621,662
Building improvements	96,744					96,744
Mobile equipment	1,448,055					1,448,055
Furniture and equipment	360,790	23,403	21,000			363,193
Total depreciable capital Assets	6,527,251	23,403	21,000	0	0	6,529,654
<u>Less accumulated depreciation for:</u>						
Buildings	(2,254,025)	(71,585)				(2,325,610)
Building improvements	(23,219)	(3,869)				(27,088)
Mobile equipment	(982,982)	(60,996)				(1,043,978)
Furniture and equipment	(345,727)	(9,038)	20,790			(333,975)
Total accumulated depreciation	(3,605,953)	(145,488)	20,790	0	0	(3,730,651)
Total depreciable capital assets, net	2,921,298	(122,085)	210	0	0	2,799,003
Governmental activities capital assets, net	\$ 2,946,298	(122,085)	210	0	0	2,824,003

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 78,764
Support services	60,996
Non-instructional	5,728
Total depreciation expense	\$ 145,488

HAZLEHURST CITY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2007

(5) Long-term liabilities.

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

	Balance 7-1-2006	Additions	Reductions	Adjustments	Balance 6-30-2007	Amounts due within one year
A. General obligation bonds payable	360,000		190,000		170,000	170,000
B. Limited obligation bonds Payable	460,000		225,000		235,000	235,000
C. Three mill notes payable	18,000		18,000		0	
D. Transportation equipment loans payable	267,300		45,000		222,300	47,000
E. Other loans payable	25,526		25,526		0	
F. Compensated absences payable	97,682		21,267		76,415	3,821
Total	<u>\$ 1,228,508</u>	<u>0</u>	<u>524,793</u>	<u>0</u>	<u>703,715</u>	<u>445,821</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:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General obligation refunding					
Bonds, Series 1992	Varies	08-01-92	08/01/07	\$ 1,770,000	170,000
Total				<u>\$ 1,770,000</u>	<u>170,000</u>

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

Year Ending June 30	Principal	Interest	Total
2008	170,000	4,845	174,845
Total	<u>\$ 170,000</u>	<u>4,845</u>	<u>174,845</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, 2007, the amount

HAZLEHURST CITY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2007

of outstanding bonded indebtedness was equal to 2% of property assessments as of October 1, 2004. This debt will be retired from the 1993 Refunded Bond Retirement Fund (4032).

B. Limited obligation bonds payable.

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

<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	4.6%	04/01/1998	08/01/2007	\$ 1,465,000	235,000
Total				\$ 1,465,000	235,000

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>
2008	235,000	5,405	240,405
Total	\$ 235,000	5,405	240,405

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 General Fund.

C. 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>
Three mill-ten year notes	5.15%	06-01-97	06-01-07	\$ 445,000	0
Total				\$ 445,000	0

HAZLEHURST CITY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2007

D. Transportation equipment loans payable.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Transportation Equipment Notes Series 2005	3.87%	11/15/05	11/15/11	\$ 267,300	222,300
Total				\$ 267,300	222,300

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

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

Year Ending June 30	Principal	Interest	Total
2008	47,000	8,603	55,603
2009	49,000	6,784	55,784
2010	52,000	4,888	56,888
2011	54,000	2,875	56,875
2012	20,300	786	21,086
Total	\$ 222,300	23,936	246,236

E. Other loans payable.

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

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Loans payable				50,517	0
Total				\$ 530,535	0

This loan was retired during the current fiscal year and payments were made through the General Fund.

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.

HAZLEHURST CITY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2007

(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, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The rate for fiscal year ending June 30, 2007 is 11.30% of the annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2007, 2006 and 2005 were \$771,019, \$720,212, and \$688,976, respectively, which equaled the required contributions for each year.

(7) Other Commitments.

Operating leases:

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

Lease expenditures for the year ended June 30, 2007, amounted to \$33,264. Future lease payments for this lease are as follows:

Year Ending June 30	Amount
2008	30,492
Total	\$ 30,492

(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.

HAZLEHURST CITY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2007

Year Ending June 30	Amount
2008	\$ 59,367
2009	47,283
2010	42,435
2011	42,435
2012	41,985
2013 - 2017	212,177
2018 - 2022	192,052
2023 - 2027	162,052
2028 - 2032	160,572
2033 - 2037	139,612
Thereafter	80,009
Total	\$ 1,179,979

(9) Prior Period Adjustments/Exhibits.

A summary of significant fund equity adjustments is as follows:

Exhibit B - Statement of Activities

<u>Explanation(s)</u>	<u>Amount</u>
1. Reclassify fund equity – an adjustment to correct a prior year error in recording an asset or liability:	
a) General Fund	(1,610)
b) 16 th Section Interest Fund	(38,295)
c) Other governmental funds	(15,311)
Total	\$ (55,216)

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

<u>Explanation(s)</u>	<u>Amount</u>
1. Reclassify fund equity – an adjustment to correct a prior year error in recording an asset or liability:	
a) General Fund	(1,610)
b) 16 th Section Interest Fund	(38,295)
c)Other governmental Funds	(15,311)
Total	\$ (55,216)

HAZLEHURST CITY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2007

(10) Subsequent Events.

On April 3, 2008, the Office of the State Auditor notified the Mississippi Department of Education, pursuant to Section 37-9-18, Mississippi Code Annotated (1972 as amended), that a serious financial condition existed at the Hazlehurst City School District. On April 18, 2008, the Mississippi Board of Education appointed Suzanne Smith, Certified Public Accountant, to serve as the financial advisor for the District and she continues to serve in that capacity as of the date of this report. The Mississippi Department of Education conducted an accountability and accreditation audit of the District and the results of that audit as well as a report by the Financial Advisor were presented to the Commission on School Accreditation at a special called meeting on May 15, 2008. The Commission determined that an extreme emergency situation existed in the Hazlehurst City School District and that this extreme emergency situation jeopardized the safety, security, and educational interests of the children enrolled in the schools of the District pursuant to Section 37-17-6(11)(b).

The Mississippi Board of Education deliberated the accreditation audit report, the Financial Advisor's report and the Commission on School Accreditation's resolution at its May 16, 2008 meeting and unanimously approved a Resolution determining that an extreme emergency situation existed in the District pursuant to Section 37-17-6(11)(b). The Board, through its Resolution, also exercised its authority to request that the superintendent and the membership of the school board of the District be subject to recall pursuant to Section 37-17-6(16) of the Mississippi Code of 1972, as amended. The Mississippi Board of Education also unanimously approved a motion, pursuant to the same statute asking the Honorable Haley Barbour, Governor, to declare a state of emergency in the District, effective immediately. The Governor agreed and declared the state of emergency on May 20, 2008. The Governor's statement released that same day said that the Mississippi Board of Education found that there is sufficient cause to believe that an extreme emergency situation exists in the Hazlehurst City School District brought on by serious leadership, management, and instructional concerns existing in the District and by serious violations of accreditation standards, Board policy, and state law, which puts the school children in an unstable and inadequate environment, denying the students to opportunity to learn, excel and obtain a free and appropriate public education. The Mississippi Board of Education has appointed Mr. Stanley Blackmon Interim Conservator for the District through Fiscal Year 2009. In October 2008, the school district issued a \$400,000 tax and revenue anticipation note.

(11) Risk Management.

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

Participation in Public Entity Risk Pool.

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 121 school districts and one community college 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

HAZLEHURST CITY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2007

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 \$700,000. For a claim exceeding \$700,000, MSBAWCT has insurance which will pay the excess up to the statutory amount required by the Mississippi Workers Compensation Commission Act. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

HAZLEHURST CITY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

Hazlehurst City School District
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2007

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 2,344,599	2,099,985	2,101,399	(244,614)	1,414
State sources	7,219,093	7,230,544	7,230,544	11,451	-
Federal sources	6,111	40	40	(6,071)	-
Total Revenues	<u>9,569,803</u>	<u>9,330,569</u>	<u>9,331,983</u>	<u>(239,234)</u>	<u>1,414</u>
Expenditures:					
Instruction	5,556,469	5,118,496	5,489,261	437,973	(370,765)
Support services	3,293,726	3,214,451	3,313,068	79,275	(98,617)
Debt service:					
Principal	256,542	251,071	250,526	5,471	545
Interest	17,904	11,990	17,941	5,914	(5,951)
Total Expenditures	<u>9,124,641</u>	<u>8,596,008</u>	<u>9,070,796</u>	<u>528,633</u>	<u>(474,788)</u>
Excess (Deficiency) of Revenues Over Expenditures					
	<u>445,162</u>	<u>734,561</u>	<u>261,187</u>	<u>289,399</u>	<u>(473,374)</u>
Other Financing Sources (Uses):					
Operating transfers in	1,017,033	749,583	843,146	(267,450)	93,563
Operating transfers out	(1,356,252)	(1,219,034)	(1,367,609)	137,218	(148,575)
Total Other Financing Sources (Uses)	<u>(339,219)</u>	<u>(469,451)</u>	<u>(524,463)</u>	<u>(130,232)</u>	<u>(55,012)</u>
Net Change in Fund Balances	<u>105,943</u>	<u>265,110</u>	<u>(263,276)</u>	<u>159,167</u>	<u>(528,386)</u>
Fund Balances:					
July 1, 2006, as previously reported			117,012		
Prior period adj & reclassifications			(1,610)		
July 1, 2006, as restated			<u>115,402</u>		
June 30, 2007			\$ <u>(147,874)</u>		

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

Hazlehurst City School District
 Budgetary Comparison Schedule
 Child Nutrition Fund
 For the Year Ended June 30, 2007

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 149,481	227,598	129,185	78,117	(98,413)
State sources	5,344	-	10,675	(5,344)	10,675
Federal sources	991,996	866,163	866,163	(125,833)	-
Total Revenues	<u>1,146,821</u>	<u>1,093,761</u>	<u>1,006,023</u>	<u>(53,060)</u>	<u>(87,738)</u>
Expenditures:					
Support services	96,668	125,607	128,321	(28,939)	(2,714)
Noninstructional services	943,030	955,042	999,947	(12,012)	(44,905)
Total Expenditures	<u>1,039,698</u>	<u>1,080,649</u>	<u>1,128,268</u>	<u>(40,951)</u>	<u>(47,619)</u>
Excess (Deficiency) of Revenues Over Expenditures					
	<u>107,123</u>	<u>13,112</u>	<u>(122,245)</u>	<u>(94,011)</u>	<u>(135,357)</u>
Other Financing Sources (Uses):					
Operating transfers in	11,621	13,872	23,702	2,251	9,830
Operating transfers out	<u>(32,426)</u>	<u>-</u>	<u>(14,576)</u>	<u>32,426</u>	<u>(14,576)</u>
Total Other Financing Sources (Uses)	<u>(20,805)</u>	<u>13,872</u>	<u>9,126</u>	<u>34,677</u>	<u>(4,746)</u>
Net Change in Fund Balances	<u>86,318</u>	<u>26,984</u>	<u>(113,119)</u>	<u>(59,334)</u>	<u>(140,103)</u>
Fund Balances:					
July 1, 2006			(31,997)		
Increase (Decrease) in reserve for inventory			<u>(5,013)</u>		
June 30, 2007			\$ <u>(150,129)</u>		

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

Hazlehurst City School District
 Budgetary Comparison Schedule
 16th Section Interest Fund
 For the Year Ended June 30, 2007

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
16th section sources	230,000	280,878	280,890	50,878	12
Total Revenues	230,000	280,878	280,890	50,878	12
Expenditures:					
Sixteenth section	-	52,112	62,364	(52,112)	(10,252)
Total Expenditures	-	52,112	62,364	(52,112)	(10,252)
Excess (Deficiency) of Revenues Over Expenditures					
	230,000	228,766	218,526	(1,234)	(10,240)
Other Financing Sources (Uses):					
Operating transfers out	(260,000)	-	-	260,000	-
Total Other Financing Sources (Uses)	(260,000)	-	-	260,000	-
Net Change in Fund Balances					
	(30,000)	228,766	218,526	258,766	(10,240)
Fund Balances:					
July 1, 2006, as previously reported			362,265		
Prior period adjustments & reclassifications			(38,295)		
July 1, 2006, as restated			323,970		
June 30, 2007			\$ 542,496		

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

HAZLEHURST CITY SCHOOL DISTRICT

Notes to Required Supplementary Information
For the Year Ended June 30, 2007

Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(2) Budget amendments and revisions.

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

HAZLEHURST CITY SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

HAZLEHURST CITY SCHOOL DISTRICT
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2007

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	\$ 40,759
Child nutrition cluster:		
School breakfast program	10.553	248,229
National school lunch program	10.555	577,355
Summer food service program for children	10.559	26,729
Total child nutrition cluster		852,313
Total passed-through Mississippi Department of Education		893,072
Total U.S. Department of Agriculture		893,072
<u>U.S. Department of Defense</u>		
Direct program:		
Reserve Officers' Training Corps	12.XXX	39,428
Total U.S. Department of Defense		39,428
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	667,884
Career and technical education-basic grants to states	84.048	27,136
Safe and drug-free schools and communities - state grants	84.186	6,953
State grants for innovative programs	84.298	607
Improving teacher quality state grants	84.367	181,416
Teacher Quality Enhancement grants	84.336	40
Grants for state assessments and related activities	84.369	9,649
Education Technology State grants	84.318	2,883
Total		896,568
Special education cluster:		
Special education - grants to states	84.027	359,044
Special education - preschool grants	84.173	14,528
Total		373,572
Total passed-through Mississippi Department of Education		1,270,140
Total U.S. Department of Education		1,270,140
Total for All Federal Awards		\$ 2,202,640

NOTES TO SCHEDULE

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

Hazlehurst City School District
 Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
 For the Year Ended June 30, 2007

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 9,391,371	6,965,257	606,750	468,858	1,350,506
Other	3,117,031	686,660	351,278	11,572	2,067,521
Total	\$ 12,508,402	7,651,917	958,028	480,430	3,418,027
Total number of students*	1,660				
Cost per student	\$ 7,535	4,610	577	289	2,059

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

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

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

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

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

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

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

*Month 9 ADA, 2006-07 School Year

HAZLEHURST CITY SCHOOL DISTRICT

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

PATRICK E. LOWERY AND ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

*Member of Mississippi Society
of Certified Public Accountants*

215 SOUTH RAILROAD AVENUE
BROOKHAVEN, MISSISSIPPI 39601

PHONE (601) 833-1456
FAX (601) 833-9896
EMAIL: plowery3@bellsouth.net

*Member of American Institute
of Certified Public Accountants*

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

Superintendent and School Board
Hazlehurst City School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Hazlehurst City School District as of and for the year ended June 30, 2007 which collectively comprise Hazlehurst City School District's basic financial statements, and have issued our report thereon dated November 11, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the school district's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the school district's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in the internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as Findings 2007-01, 2007-02, 2007-03, 2007-04, 2007-05, 2007-06, 2007-07, 2007-08 and 2007-09 to be significant deficiencies in internal control over financial reporting.

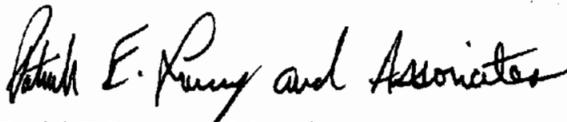
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the school district's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Findings 2007-01, 2007-02, 2007-03, 2007-04, 2007-05, 2007-06, 2007-07 and 2007-08 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the Schedule of Findings and Questioned Costs as Findings 2007-01, 2007-02, 2007-03 and 2007-04. We also noted certain immaterial instances of noncompliance that we have reported to management of the school district in a separate letter dated November 11, 2008, which is included in this report.

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



Patrick E. Lowery and Associates
Certified Public Accountants

November 11, 2008

PATRICK E. LOWERY AND ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

*Member of Mississippi Society
of Certified Public Accountants*

215 SOUTH RAILROAD AVENUE
BROOKHAVEN, MISSISSIPPI 39601

PHONE (601) 833-1456

FAX (601) 833-9896

EMAIL: plowery3@bellsouth.net

*Member of American Institute
of Certified Public Accountants*

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

Superintendent and School Board
Hazlehurst City School District

Compliance

We have audited the compliance of the Hazlehurst City School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. 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.

As described in Finding 2007-10 in the accompanying Schedule of Findings and Questioned Costs, the school district did not comply with requirements regarding eligibility testing that are applicable to the Child Nutrition Cluster. Compliance with such requirements is necessary, in our opinion, for the school district for the year ended June 30, 2007.

In our opinion, except for the noncompliance described in the preceding paragraph, Hazlehurst City School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the Hazlehurst City School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the school district's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in the internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as Findings 2007-11 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We consider the significant deficiency described in the accompanying Schedule of Findings and Questioned Costs as Finding 2007-11 to be a material weakness.

Hazlehurst City School District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Hazlehurst City School District's response and, accordingly, we express no opinion on it.

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



Patrick E. Lowery and Associates
Certified Public Accountants

November 11, 2008

HAZLEHURST CITY SCHOOL DISTRICT

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

PATRICK E. LOWERY AND ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

Member of Mississippi Society
of Certified Public Accountants

215 SOUTH RAILROAD AVENUE
BROOKHAVEN, MISSISSIPPI 39601

PHONE (601) 833-1456

FAX (601) 833-9896

EMAIL: plowery3@bellsouth.net

Member of American Institute
of Certified Public Accountants

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

Superintendent and School Board
Hazlehurst City School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Hazlehurst City School District as of and for the year ended June 30, 2007 which collectively comprise Hazlehurst City School District's basic financial statements, and have issued our report thereon dated November 11, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33 (3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$4,150 of classroom supply funds carried over from previous years.

Section 37-9-18(3)(b), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure correct and appropriate coding at the function level. The audit must include a report showing the correct and appropriate functional level expenditure codes in expenditures by the school district."

The results of our procedures performed to test compliance with the requirements of Section 37-9-19(3)(b), Miss. Code Ann. (1972), disclosed no instances of noncompliance related to incorrect or inappropriate functional level expenditure coding.

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 procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements disclosed the following immaterial instances of noncompliance with other state laws and regulations. Our findings and recommendations and your responses are as follows:

1. The district should comply with state law regarding shared 16th section townships and preparing lists of educable children within those townships.

Finding

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

Recommendation

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

School District's Response

We concur.

2. The district should comply with state law regarding shared 16th section townships and shared revenue between school districts.

Finding

The district should comply with Section 29-3-119, Miss. Code Ann. (1972) which requires in cases where a township is occupied by two or more school districts that the revenue be divided among the districts according to applicable percentages derived from the list of educable children (see finding 1).

Recommendation

The district should comply with Section 29-3-119, Miss. Code Ann. (1972) and divide revenues from shared townships with other districts.

School District's Response

We concur.

3. The district should promptly collect sixteenth section leases.

Finding

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

Recommendation

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

School District's Response

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

3. The district transferred funds from the sixteenth section interest fund after failing to make required payments on a sixteenth section loan.

Finding

Section 29-3-111. Miss. Code Ann. (1972), states, "No school land trust funds may be expended after the annual payment date until the payment is made on such loan. The annual payment can be made from any funds available to the school district except minimum foundation program funds." The annual principal and interest payment was not made on the 16th section principal loan. The district transferred \$462,433 from the sixteenth section interest fund after the due date of the annual payment. All these transfers were in violation of state law and have been reclassified as due from other funds in the sixteenth section interest fund and due to other funds in the general fund.

Recommendation

This has been a recurring finding in audits of the district. We recommend the district repay the entire outstanding balance on this loan as soon as possible to allow for the legal transfer of funds from the sixteenth section interest fund.

School District's Response

We concur.

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

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



Patrick E. Lowery and Associates
Certified Public Accountants

November 11, 2008

HAZLEHURST CITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|---|-------------|
| 1. | Type of auditor's report issued on the financial statements: | Unqualified |
| 2. | Material noncompliance relating to the financial statements? | Yes |
| 3. | Internal control over financial reporting: | |
| a. | Material weaknesses identified? | Yes |
| b. | Significant deficiency identified that is not considered to be a material weakness? | Yes |

Federal Awards:

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

Material Non-Compliance/ Material Weakness

2007-01 Expenditures should be limited to available resources.

Finding

Section 37-61-19, Miss. Code Ann. (1972), states, "It shall be the duty of the superintendents of schools and the school boards of all school districts to limit the expenditure of school funds during the fiscal year to the resources available. It shall be unlawful for any school district to budget expenditures from a fund in excess of the resources available within that fund. Furthermore, it shall be unlawful for any contract to be entered into or any obligation incurred or expenditure made in excess of the resources available for such fiscal year."

Budgetary controls were not in place to prevent the district from expending funds in excess of its available resources during the fiscal year. The district's financial statements include a deficit fund balance of \$147,874 in the General fund and a deficit fund balance of \$150,129 in the Food Service fund at June 30, 2007. General Fund expenditures exceeded budgeted amounts by \$407,840 and Food Service expenditures exceeded budgeted amounts by \$52,632.

The deficit fund balances have resulted in the district's finances being administered by a Financial Advisor appointed by the Mississippi Department of Education and contributed to the declaration of a state of emergency by the Governor which resulted in a Conservator being placed in charge of the district.

Recommendation

We recommend that the district put a spending plan in place to insure compliance with Section 37-61-19, Miss. Code Ann. (1972), which requires the district's expenditures not to exceed resources available.

2007-02 The district illegally transferred funds from the forestry escrow fund to the general fund.

Finding

Section 27-3-47, Miss. Code Ann. (1972), requires that at least 15% of the sale of forest products be credited to the forestry escrow fund, that those funds be used to maintain forest lands and that any transfers of excess funds be pre-approved by the Mississippi Forestry Commission. The forestry escrow fund should have \$89,604 in the fund, however, \$78,343 of those funds were transferred to the general fund during the fiscal year. That amount has been reclassified as a due from other funds in the forestry escrow fund and a due to other funds in the general fund. That amount has been repaid as of the date of this report.

Recommendation

The district should comply with Section 27-3-47, Miss. Code Ann. (1972). The district should also place the forestry escrow funds in a separate account (during the fiscal year they were held in a common bank account with sixteenth section interest funds) to avoid the possibility of invading the escrow fund in error.

2007-03 The District's payroll system should be in compliance with the United States Department of Labor's Fair Labor Standards Act.

Finding

The Fair Labor Standards Act requires that employers pay overtime to non-exempt workers at a rate not less than one and one-half times regular pay. In performing our tests of payroll transactions we reviewed the computerized records for the district's time clock. We noted that the employee administering the system repeatedly and systematically over-rode the hours worked for various employees to eliminate overtime hours. These overrides were accompanied by notes such as "employee not authorized to work late". We were unable to discuss this with the employee who made the overrides as that employee is no longer with the district. The district paid out several hundred thousand dollars as a result of a previous lawsuit related to overtime, therefore, we believe this is a material weakness.

Recommendation

The District should comply with all aspects of the Fair Labor Standards Act including paying overtime.

2007-04 Controls over eligibility testing by the Food Service Department should be strengthened.

Finding

Program: Child Nutrition Cluster-passed through Mississippi Department of Education
School breakfast program: CFDA 10.553
National school lunch program: CFDA 10.555
Summer food service program for children: CFDA 10.559

Compliance Requirement: Eligibility

During our test of 40 students from the master roster of free and reduced students, the district could not locate free and reduced meal applications for 17 of the 40 students selected for testing. To receive meals served free or at a reduced price under the programs, a child's family must submit an application to the district. The application establishes that the child's family income and family size place him/her within income eligibility standards issued by the State Department of Education in accordance with guidelines published by USDA Food and Nutrition Service.

Recommendation

The district should implement procedures to ensure compliance with eligibility requirements set forth by USDA Food and Nutrition Service.

Material Weaknesses

2007-05 Bank reconciliations should be prepared in a timely manner.

Finding

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

Recommendation

The district should implement procedures to ensure that bank reconciliations are done on a monthly basis. Additional procedures should be made to insure that bank reconciliations agree with the underlying financial records and that any differences are resolved in a timely manner.

2007-06 Controls over E-Rate reimbursements need to be strengthened.

Finding

The district qualified for reimbursements through The Schools and Libraries Program of the Universal Service Fund (E-Rate). The district did not have systems in place to insure that all available funds were requested. Because the district failed to request reimbursement, funding totaling approximately \$132,000 was lost during the fiscal year.

Recommendation

The district should implement procedures to ensure that all available E-Rate funds are requested.

2007-07 Controls over food service revenue should be strengthened.

Finding

In our tests of food service requests for reimbursement we noted that in November 2006 the district under-reported the number of free meals served at the high school by 4,912, under-reported the number of reduced meals by 414 and the number of paid meals by 295. This caused the district to receive almost \$13,000 less in reimbursement than was due for that month. Mississippi Department of Education officials have concluded that up to 200 meals per day were not being captured for reimbursement on a regular basis. This contributed significantly to the deficit in the food service fund.

Recommendation

The district should implement procedures to ensure that all free and reduced meals are captured for reimbursement and that requests for reimbursement are reviewed for accuracy prior to submission.

2007-08 Controls over cash disbursements and the claims docket should be strengthened.

Finding

We noted the following instances where the controls over cash disbursements were over-ridden:

In several instances the accounts payable clerk was directed by the interim superintendent to pay a vendor prior to approval by the school board.

In one instance the accounts payable clerk refused to process a travel reimbursement for the following reasons:

- a) The trip was taken in March of 2005 and the request for reimbursement was not made until August, 2006.
- b) The travel request was not approved by the superintendent as required by school policy.

- c) There were no receipts or documentation of attendance at the event attached to the request.

The accounts payable clerk processed the request after a board member interceded and directed the accounts payable clerk to process it.

Recommendation

Procedures should be put in place to allow employees a means to report override of controls by management or board members. Employees should be able to report these instances without fear of retribution.

Significant deficiencies not considered to be Material Weaknesses

2007-09 Controls over activity fund revenues need to be strengthened.

Finding

Management is responsible for ensuring that all revenue is earned, correctly recorded, and deposited in order to safeguard the assets of the district. The district provides the high school with game forms to account for the activity fund revenue which include signature lines to be completed and signed by those responsible. The *Financial Accounting Manual for Mississippi Public Schools* requires that pre-numbered tickets be used at all extracurricular events for which a fee is charged for admission and it is anticipated that the event will generate more than \$100 and provides sample transmittal forms for use by the public schools.

We attempted to test the transmittal forms for Hazlehurst High Schools football games for the fall 2006 season, but the district could not locate any of the forms. Failure to properly use these forms to account for ticket sales could result in the loss of assets and improper revenue recognition.

Recommendation

We recommend that the district follow the guidelines found in *The Financial Accounting Manual for Mississippi Public Schools* and prepare transmittal forms for all events in which over \$100 is anticipated to be collected.

Section 3: Federal Award Findings and Questioned Costs
Material Noncompliance/Material Weakness

2007-10 Controls over eligibility testing by the Food Service Department should be strengthened.

Finding

Program: Child Nutrition Cluster-passed through Mississippi Department of Education
School breakfast program: CFDA 10.553
National school lunch program: CFDA 10.555
Summer food service program for children: CFDA 10.559

Compliance Requirement: Eligibility

During our test of 40 students from the master roster of free and reduced students, the district could not locate free and reduced meal applications for 17 of the 40 students selected for testing. To receive meals served free or at a reduced price under the programs, a child's family must submit an application to the district. The application establishes that the child's family income and family size place him/her within income eligibility standards issued by the State Department of Education in accordance with guidelines published by USDA Food and Nutrition Service.

Recommendation

The district should implement procedures to ensure compliance with eligibility requirements set forth by USDA Food and Nutrition Service.

Material Weakness

2007-11 Controls over food service revenue should be strengthened.

Finding

Program: Child Nutrition Cluster-passed through Mississippi Department of Education
School breakfast program: CFDA 10.553
National school lunch program: CFDA 10.555
Summer food service program for children: CFDA 10.559

In our tests of food service requests for reimbursement we noted that in November 2006 the district under-reported the number of free meals served at the high school by 4,912, under-reported the number of reduced meals by 414 and the number of paid meals by 295. This caused the district to receive almost \$13,000 less in reimbursement than was due for that month. Mississippi Department of Education officials have concluded that up to 200 meals per day were not being captured for reimbursement on a regular basis. This contributed significantly to the deficit in the food service fund.

Recommendation

The district should implement procedures to ensure that all free and reduced meals are captured for reimbursement and that requests for reimbursement are reviewed for accuracy prior to submission.

HAZLEHURST CITY SCHOOL DISTRICT

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

Hazlehurst City Schools - 2006-2007 Audit – Summary of Prior Year Findings

2006-03 Finding

Compliance Requirement: Program Income

Program: Hurricane Recovery – CFDA #84.938

Name of Contact Person Responsible for Corrective Action: District Business Manager

Corrective Action Planned: Repayment of amount to federal agency

Anticipated Completion Date: Money was repaid September 2007. (Completed)

2006-04 Finding

Compliance Requirement: Cash Management

Program: Title I – grants to local educational agencies – CFDA 84.010

Name of Contact Person Responsible for Corrective Action: District Business Manager and State-appointed financial advisor

Corrective Action Planned: The district will implement policies and procedures to ensure that only cash needed for immediate program needs will be drawn down.

Anticipated Completion Date: April 2008

Hazlehurst City School District Corrective Action Plan 2006-2007 Audit

Finding 2007-01 Expenditures should be limited to available resources.

District Corrective Action: The school district was taken into conservatorship by the Mississippi Department of Education, and a financial advisor was assigned to the district in April 2008. The financial advisor, in conjunction with district officials, began a process of budget cuts that would bring current expenditures in line with current revenues. The school district has made a commitment to bring the deficit fund balances in both the General Fund and the Food Service Fund under control. This will be accomplished through a careful analysis of all expenditures and maximization of revenues.

Who will implement the corrective action: School District Business Manager and State-appointed Financial Advisor, working in conjunction with the State-appointed Conservator.

When will the corrective action begin: April 2008.

Finding 2007- 02 The district illegally transferred funds from the forestry escrow fund to the general fund.

District Corrective Action: The district will not transfer funds from the forestry escrow fund to the general fund as cash flow loans. All outstanding loans to the forestry escrow fund will be repaid.

Who will implement the corrective action: School District Business Manager and State-appointed Financial Advisor.

When will the corrective action begin: April 2008.

Finding 2007-03 The district's payroll system should be in compliance with the United States Department of Labor's Fair Labor Standards Act.

District Corrective Action: The district will immediately stop the act of overriding the hours that employees work. The hours documented in the automated time system will be paid, and any unauthorized hours worked will be handled in another way other than cutting the hours paid.

Who will implement the corrective action: School District Business Manager and Payroll Clerk.

When will the corrective action begin: April 2008.

Finding 2007-04 Controls over eligibility testing by the Food Service Department should be strengthened.

District Corrective action: The district will strengthen the controls over record retention for free/reduced lunch applications.

Hazlehurst City School District Corrective Action Plan 2006-2007 Audit

Who will implement the corrective action: Food Service Director. A new director will be hired to facilitate the effective implementation of records storage and safeguarding.

When will the corrective action begin: January 2009.

2007-05 Bank reconciliations should be prepared in a timely manner.

District Corrective Action Plan: Bank reconciliations will be prepared in a timely manner, with each month being prepared prior to the end of the following month. A catch-up effort will be required to catch old months up-to-date.

Who will implement the corrective action: School District Business Manager and State-appointed Financial Advisor.

When will the corrective action begin: April 2008.

2007-06 Controls over E-Rate reimbursements need to be strengthened.

District Corrective Action Plan: The responsibility for the requesting of e-rate reimbursements will be shifted from the technology director to the business manager. The business manager will be responsible for requesting e-rate reimbursements in accordance with the approved plan. Training will be provided from the State Department of Education in order to familiarize the Business Manager with the e-rate reimbursement process.

Who will implement the corrective action plan: School District Business Manager.

When will the corrective action begin: November 2008.

2007-07 Controls over food service revenue should be strengthened.

District Corrective Action Plan: A new school food service director will be hired. The former director was not ensuring that all meals served were captured in the point-of-sale software and reported for reimbursement, resulting in thousands of dollars of lost revenue. The new director will be held responsible for ensuring that all reimbursable meals are captured and reported for reimbursement.

Who will implement the corrective action plan: School Food Service Director.

When will the corrective action begin: January 2009.

2007-08 Controls over cash disbursements and the claims docket should be strengthened.

Hazlehurst City School District Corrective Action Plan 2006-2007 Audit

District Corrective Action Plan: The school district was taken into conservatorship by the Mississippi Department of Education, and a financial advisor was assigned to the district in April 2008. The financial advisor will have total authority to approve claims on the claims docket. Guidelines for travel that are already in the district will be observed and followed. No exceptions will be made for travel reimbursement outside of this guidelines. The district business manager will be encouraged to follow guidelines in place instead of allowing superintendent and school board override of district policies and procedures.

Who will implement the corrective action plan: School District Business Manager and State-appointed Financial Advisor.

When will the corrective action begin: April 2008.

2007-09 Controls over activity funds revenues need to be strengthened.

District Corrective Action Plan: The District will begin the process of using pre-numbered tickets for all student activity events where \$100 or more in revenue is expected to be raised. The use of pre-numbered tickets will also include the completion of a reconciliation form that will reconcile the number of tickets sold to the revenue collected at the event. The central office will physically ensure the tickets and account for their distribution prior to all events.

Who will implement the corrective action plan: School District Business Manager and Athletic Director.

When will the corrective action begin: August 2008.

Finding 2007-10 Controls over eligibility testing by the Food Service Department should be strengthened.

District Corrective action: The district will strengthen the controls over record retention for free/reduced lunch applications.

Who will implement the corrective action: Food Service Director. A new director will be hired to facilitate the effective implementation of records storage and safeguarding.

When will the corrective action begin: January 2009.

Finding 2007-11 Controls over food service revenue should be strengthened.

District Corrective Action Plan: A new school food service director will be hired. The former director was not ensuring that all meals served were captured in the point-of-sale software and reported for reimbursement, resulting in thousands of dollars of lost revenue. The new director will be held responsible for ensuring that all reimbursable meals are captured and reported for reimbursement.

Who will implement the corrective action plan: School Food Service Director.

Hazlehurst City School District Corrective Action Plan 2006-2007 Audit

When will the corrective action begin: January 2009.