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**Hazlehurst City School District
Financial Statements
For the Year Ended
June 30, 2008**

Hazlehurst City School District
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HAZLEHURST CITY SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

PATRICK E. LOWERY AND ASSOCIATES

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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, 2008, 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.

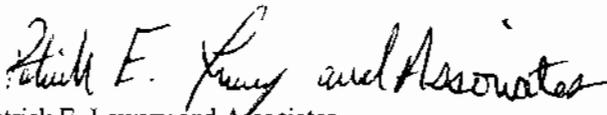
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Hazlehurst City School District, as of June 30, 2008, and the respective 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 February 23, 2009, 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 44 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 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The other supplemental information section, which includes the Statement of Revenues, Expenditures, and Changes in Fund Balances, General Fund, Last Four Years, and the Statement of Revenues, Expenditures and Changes in Fund Balances, All Governmental Funds, Last Four Years, is presented for purposes of additional analysis as required by the Mississippi Department of Education and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.



Patrick E. Lowery and Associates
Certified Public Accountants

February 23, 2009

HAZLEHURST CITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Hazlehurst City School District

Office of the Superintendent

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, 2008. 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, decreased \$650,266, which represents a 24% decrease from fiscal year 2007. This decrease in net assets is due to the deficiency of revenues and other financing sources over expenditures and other financing uses. This situation resulted in a negative fund balance in the General Fund and Child Nutrition Fund at fiscal year end.
- General revenues accounted for \$9,771,279 in revenue, or 78% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$2,783,572, or 22% of total revenues.
- The District had \$13,172,293 in expenses; only \$2,783,572 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$9,771,279 and beginning net assets were adequate to provide for these programs.
- Among major funds, the General Fund had \$9,470,900 in revenues and \$9,983,892 in expenditures. After net other financing uses of \$461,552, the net change in fund balance for the General Fund was a decrease of \$974,544 from the previous fiscal year. The current year deficiency of revenues and other financing sources over expenditures and other financing uses resulted in a negative fund balance of \$1,122,418 at fiscal year end.
- Capital assets, net of accumulated depreciation, decreased by \$143,207.
- Long-term debt decreased by \$460,203.

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HAZLEHURST CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008

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, 2008

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 schedule 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, a schedule of instructional, administrative and other expenditures for governmental funds and Statement of Revenues, Expenditures and Changes in Fund Balance, General Fund and All Governmental Funds, Last Four Years are also included in this report.

HAZLEHURST CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008

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 \$2,106,704 as of June 30, 2008.

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. \$2,505,496 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. \$791,838 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. The unrestricted portion of the District's net assets is a negative amount of \$1,190,630. 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 acquisition and payment of debt, the acquisition and disposal of capital assets and the depreciation of capital assets.

The following table presents a summary of the District's net assets for the fiscal year ended June 30, 2008 and comparative data for the fiscal year ended June 30, 2007.

	<u>Net Assets</u>		<u>Percentage Change</u>
	<u>June 30, 2008</u>	<u>June 30, 2007</u>	
Current assets	\$ 405,652	\$ 1,272,656	(68.1) %
Other assets	127,652	108,105	18.1 %
Capital assets, net	<u>2,680,796</u>	<u>2,824,003</u>	(5.1) %
Total assets	<u>3,214,100</u>	<u>4,204,764</u>	(23.5) %
Current liabilities	863,884	744,079	16.1 %
Long-term debt outstanding	<u>243,512</u>	<u>703,715</u>	(65.4) %
Total liabilities	<u>1,107,396</u>	<u>1,447,794</u>	(23.5) %
Net assets:			
Invested in capital assets, net of related debt	2,505,496	2,196,703	14.1 %
Restricted	791,838	784,556	0.9 %
Unrestricted	<u>(1,190,630)</u>	<u>(224,289)</u>	(430.8) %
Total net assets	<u>\$ 2,106,704</u>	<u>2,756,970</u>	(23.6) %

**HAZLEHURST CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

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 cash and cash equivalents and investments.
- Capital assets decreased from the previous fiscal year due primarily to the disposal of a few capital assets and 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.
- 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.
- 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, 2008 were \$12,554,851. The total cost of all programs and services was \$13,172,293. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2008 and comparative data for the fiscal year ended June 30, 2007.

	<u>Change in Net Assets</u>		<u>Percentage Change</u>
	<u>June 30, 2008</u>	<u>June 30, 2007</u>	
Revenues:			
Program revenues:			
Charges for services	\$ 265,247	\$ 321,175	(17.4) %
Operating grants and contributions	2,518,325	2,408,073	4.6 %
General revenues:			
Property taxes	2,247,727	2,193,380	2.5 %
Grants and contributions not restricted	7,326,451	7,225,467	1.4 %
Other	<u>197,101</u>	<u>310,064</u>	(36.4) %
Total revenues	<u>12,554,851</u>	<u>12,458,159</u>	0.8 %
Expenses:			
Instruction	7,517,668	7,064,980	6.4 %
Support services	4,481,022	3,860,375	16.1 %
Non-instructional	1,113,404	1,077,712	3.3 %
Sixteenth section	38,837	63,628	(39.0) %
Interest and other expenses on long-term liabilities	<u>21,362</u>	<u>34,122</u>	(37.4) %
Total expenses	<u>13,172,293</u>	<u>12,100,817</u>	8.9 %

HAZLEHURST CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008

Increase (Decrease) in net assets	(617,442)	357,342	(272.8) %
Net Assets, July 1	2,756,970	2,454,844	12.3 %
Prior Period Adjustments	<u>(32,824)</u>	<u>(55,216)</u>	
Net Assets, Restated, July 1	<u>2,724,146</u>	<u>2,399,628</u>	13.5 %
 Net Assets, June 30	 <u>\$ 2,106,704</u>	 <u>\$ 2,756,970</u>	 (23.6) %

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

- Instruction expenses increased from the previous fiscal year due primarily to an increase in salaries and benefits of District employees.
- Support services expenses increased from the previous fiscal year due primarily to an increase in salaries and benefits of District employees and an increase in transportation costs.

Governmental activities. The following table presents, for the fiscal year ended June 30, 2008 and comparative data for the fiscal year ended June 30, 2007, 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>2008</u>		<u>2007</u>	
	<u>Total Expenses</u>	<u>Net (Expense) Revenue</u>	<u>Total Expenses</u>	<u>Net (Expense) Revenue</u>
Instruction	\$ 7,517,668	\$ (6,083,840)	\$ 7,064,980	\$ (5,815,950)
Support services	4,481,022	(4,106,097)	3,860,375	(3,384,680)
Non-instructional	1,113,404	(148,660)	1,077,712	(111,306)
Sixteenth section	38,837	(28,762)	63,628	(25,511)
Interest and other expenses on long-term liabilities	<u>21,362</u>	<u>(21,362)</u>	<u>34,122</u>	<u>(34,122)</u>
Total expenses	<u>\$ 13,172,293</u>	<u>\$ (10,388,721)</u>	<u>\$ 12,100,817</u>	<u>\$ (9,371,569)</u>

- The net cost of governmental activities for fiscal year 2008 in the amount of \$10,388,721 was financed by general revenue, which is made up of primarily property taxes of \$2,247,727 and state revenue of \$7,326,451.
- Investment earnings accounted for \$18,950 of funding.

HAZLEHURST CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008

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, 2008, its governmental funds reported a combined negative fund balance of \$326,361. The net change in fund balance for the fiscal year was a decrease of \$976,878 due to the deficiency of revenues and other financing sources over expenditures and other financing uses. A portion of the fund balance is reported by fund type in the unreserved, undesignated section of the Governmental Funds Balance Sheet. The portion of the fund balance reported in the General Fund is negative due to the deficiency of revenues and other financing sources over expenditures and other financing uses. The portion of the fund balance reported in the Special Revenue Funds will be used for school based activities. The remaining fund balance 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 \$974,544 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 \$184,587 due to the deficiency of revenues and other financing sources over expenditures and other financing uses during the fiscal year also causing 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 \$118,150 due primarily to sixteenth section sources generated during the fiscal year primarily from the sale of timber and sixteenth section lease revenue. The net change in fund balance for the Other Governmental Funds for the fiscal year was an increase of \$64,103.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget. Budget revisions included changes made to increase or decrease revenues and expenditures as needed during the fiscal year based on the result of actual activity, specifically to reflect a decrease in local and state sources in the General Fund and to reflect an increase in expenditures incurred related to salaries and benefits of District employees and transportation costs. Revisions were also made to

HAZLEHURST CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008

reflect an increase in food service costs in the Child Nutrition Fund. Other budget revisions were considered insignificant when compared to overall revenues and expenditures.

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, 2008, the District's total capital assets, before depreciation, were \$6,483,561, including land, buildings, building improvements, mobile equipment and furniture and equipment. This amount represents a gross decrease of \$71,093 from the previous year due to the disposal of various capital assets during the fiscal year. Total depreciation expense for the year was \$138,279. Total accumulated depreciation as of June 30, 2008 was \$3,802,765, resulting in total net capital assets of \$2,680,796.

	<u>Capital Assets, Net of Depreciation</u>		Percentage <u>Change</u>
	<u>2008</u>	<u>2007</u>	
Land	\$ 25,000	\$ 25,000	0.0 %
Buildings	2,229,562	2,296,052	(2.9) %
Building improvements	65,786	69,656	(5.6) %
Mobile equipment	340,510	404,077	(15.7) %
Furniture and equipment	19,938	29,218	(31.8) %
Total	\$ 2,680,796	\$ 2,824,003	(5.1) %

Debt Administration. At June 30, 2008, the District had \$243,512 in long-term debt outstanding, of which \$52,411 is due within one year. During the fiscal year, the District made principal payments in the amount of \$452,000 on existing long-term debt. General obligation bonds and limited obligation bonds were fully retired during the fiscal year.

	<u>Outstanding Debt</u>		Percentage <u>Change</u>
	<u>2008</u>	<u>2007</u>	
General obligation bonds payable	\$ 0	\$ 170,000	(100.0) %
Limited obligation bonds payable	0	235,000	(100.0) %
Transportation equipment loans payable	175,300	222,300	(21.1) %
Compensated absences payable	68,212	76,415	(10.7) %
Total	\$ 243,512	\$ 703,715	(65.4) %

CURRENT ISSUES

The fund balance of the General Fund decreased significantly from the previous fiscal year resulting in a negative fund balance of \$1,122,418. The Child Nutrition Fund also ended the fiscal year with a negative fund balance of \$334,716. 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

HAZLEHURST CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008

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, 2008

Exhibit A

	<u>Governmental Activities</u>
Assets	
Due from other governments	379,762
Inventories	25,890
Restricted assets	127,652
Capital assets, not being depreciated:	
Land	25,000
Capital assets, net of accumulated depreciation	
Buildings	2,229,562
Building Improvements	65,786
Mobile equipment	340,510
Furniture and equipment	<u>19,938</u>
 Total Assets	 \$ <u>3,214,100</u>
Liabilities	
Checks drawn in excess of deposits	41,915
Accounts payable and accrued liabilities	\$ 697,289
Unearned revenue	120,461
Interest payable on long-term liabilities	4,219
 Long-term liabilities, due within one year	
Capital related liabilities	49,000
Non-capital related liabilities	3,411
 Long-term liabilities, due beyond one year	
Capital related liabilities	126,300
Non-capital related liabilities	<u>64,801</u>
 Total Liabilities	 \$ <u>1,107,396</u>
Net Assets	
Investment in capital assets, net of related debt	\$ 2,505,496
Restricted net assets:	
Expendable:	
School - based activities	416,335
Debt service	128,222
Forestry improvements	63,494
Unemployment benefits	52,704
Non-expendable:	
Sixteenth section	131,083
Unrestricted	<u>(1,190,630)</u>
 Total Net Assets	 \$ <u>2,106,704</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, 2008

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental Activities:					
Instruction	\$ 7,517,668	101,754	1,332,074	-	(6,083,840)
Support services	4,481,022	-	374,925	-	(4,106,097)
Non-instructional	1,113,404	153,418	811,326	-	(148,660)
Sixteenth section	38,837	10,075	-	-	(28,762)
Interest on long-term liabilities	21,362	-	-	-	(21,362)
Total governmental activities	\$ 13,172,293	265,247	2,518,325	-	(10,388,721)

General Revenues:

Taxes:

General purpose levies	1,984,699
Debt purpose levies	263,028

Unrestricted grants and contributions:

State	7,326,451
Unrestricted investment earnings	18,950
Sixteenth section sources	165,869
Other	12,282
Total General Revenues	9,771,279

2,783,572
 22.2%
 12,554,851
 77.8%

Change in Net Assets	(617,442)
Net Assets - Beginning	2,756,970
Prior Period Adjustments	(32,824)
Net Assets - Beginning - Restated	2,724,146
Net Assets - Ending	\$ 2,106,704

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

Hazlehurst City School District
 Balance Sheet - Governmental Funds
 June 30, 2008

Exhibit C

	Major Funds					Total Governmental Funds
	General Fund	Child Nutrition Fund	Teacher/Principal Training Fund	16th Section Interest Fund	Other Governmental Funds	
ASSETS						
Cash and cash equivalents	\$ -	-	-	70,722	560,138	630,860
Due from other governments	123,758	-	156,339	-	29,443	309,540
Due from other funds	172,789	-	-	591,924	160,646	925,359
Advance to other funds	-	-	-	-	3,431	3,431
Inventories	-	25,890	-	-	-	25,890
Total Assets	\$ 296,547	25,890	156,339	662,646	753,658	1,895,080
LIABILITIES AND FUND BALANCES						
Liabilities:						
Checks drawn in excess of deposits	533,943	11,180	-	-	-	545,123
Accounts payable and accrued liabilities	\$ 586,898	16,244	12,421	2,000	79,726	697,289
Due to other funds	294,693	333,182	143,918	-	83,344	855,137
Advances from other funds	3,431	-	-	-	-	3,431
Unearned revenue	-	-	-	-	120,461	120,461
Total Liabilities	1,418,965	360,606	156,339	2,000	283,531	2,221,441
Fund Balances:						
Reserved for:						
Advances	-	-	-	-	3,431	3,431
Inventory	-	25,890	-	-	-	25,890
Unemployment benefits	-	-	-	-	52,704	52,704
Forestry improvement	-	-	-	-	63,494	63,494
Debt service purposes	-	-	-	-	132,441	132,441
Permanent fund purposes	-	-	-	-	127,652	127,652
Unreserved:						
Undesignated, reported in:						
General fund	(1,122,418)	-	-	-	-	(1,122,418)
Special Revenue funds	-	(360,606)	-	660,646	90,405	390,445
Total Fund Balances	(1,122,418)	(334,716)	-	660,646	470,127	(326,361)
Total Liabilities and Fund Balances	\$ 296,547	25,890	156,339	662,646	753,658	1,895,080

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, 2008

Exhibit C-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ (326,361)
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 \$3,802,765.	2,680,796
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	(243,512)
Accrued interest on debt	<u>(4,219)</u>
Total Net Assets - Governmental Activities	\$ <u>2,106,704</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, 2008

Exhibit D

	Major Funds				Other Governmental Funds	Total Governmental Funds
	General Fund	Child Nutrition Fund	Teacher/Principal Training Fund	16th Section Interest Fund		
Revenues.						
Local sources	\$ 2,116,010	153,088	-	-	263,423	2,532,521
State sources	7,354,890	4,637	-	-	186,673	7,546,200
Federal sources	-	861,481	295,118	-	1,141,977	2,298,576
Sixteenth section sources	-	-	-	127,789	49,763	177,554
Total Revenues	9,470,900	1,019,206	295,118	127,789	1,641,838	12,554,851
Expenditures						
Instruction	5,749,818	-	278,080	-	1,421,842	7,449,740
Support services	3,981,544	146,904	6,398	-	284,418	4,419,264
Noninstructional services	-	1,067,050	-	-	51,197	1,118,247
Sixteenth section	-	-	-	2,596	36,241	38,837
Debt service:						
Principal	235,000	-	-	-	217,000	452,000
Interest	17,530	-	-	-	13,448	30,978
Total Expenditures	9,983,892	1,213,954	284,478	2,596	2,024,146	13,509,066
Excess (Deficiency) of Revenues Over Expenditures						
	(512,992)	(194,748)	10,640	125,193	(382,308)	(954,215)
Other Financing Sources (Uses)						
Operating transfers in	-	-	-	-	499,199	499,199
Operating transfers out	(461,552)	-	(10,640)	(7,043)	(19,964)	(499,199)
Total Other Financing Sources (Uses)	(461,552)	-	(10,640)	(7,043)	479,235	-
Net Change in Fund Balances	(974,544)	(194,748)	-	118,150	96,927	(954,215)
Fund Balances:						
July 1, 2007, as previously reported	(147,874)	(150,129)	-	542,496	406,024	650,517
Prior period adjustments	-	-	-	-	(32,824)	(32,824)
July 1, 2007, as restated	(147,874)	(150,129)	-	542,496	373,200	617,693
Increase (Decrease) in reserve for inventory	-	10,161	-	-	-	10,161
June 30, 2008	\$ (1,122,418)	(334,716)	-	660,646	470,127	(326,361)

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, 2008

Exhibit D-1

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ (954,215)
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 \$0 and the depreciation expense amounted to \$138,279.	(138,279)
2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of activities.	452,000
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	(4,928)
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	8,203
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.	9,616
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>10,161</u>
Change in Net Assets of Governmental Activities	\$ <u><u>(617,442)</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, 2008

Exhibit E

	<u>Agency Funds</u>	<u>Private Purpose Trust Funds</u>
Assets		
Cash and cash equivalents	\$ <u>70,222</u>	<u>29,110</u>
Total Assets	\$ <u>70,222</u>	<u>29,110</u>
Liabilities		
Duc to other funds	<u>70,222</u>	<u>-</u>
Total Liabilities	\$ <u>70,222</u>	<u>-</u>
Net Assets		
Reserved for scholarships		<u>29,110</u>
Total Net Assets		\$ <u>29,110</u>

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

Hazlehurst City School District
Statement of Changes in Fiduciary Net Assets
June 30, 2008

Exhibit F

	<u>Private Purpose Trust Funds</u>
Additions	
Interest on investments	\$
Contributions and donations from private sources	<u>-</u>
Total Additions	<u>-</u>
Deductions	
Scholarships awarded	<u>500</u>
Total Deductions	<u>500</u>
Change in net assets	<u>(500)</u>
Net Assets	
July 1 2007	-
Prior period adjustments	<u>29,610</u>
July 1, 2007, as restated	<u>29,610</u>
June 30, 2008	\$ <u>29,110</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, 2008

(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.

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 district.

For financial reporting purposes, Hazlehurst City School District has included all funds and organizations. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District.

B. Basis of Presentation.

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

1. Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances for bonds, notes or other debt attributable to the acquisition, construction or improvement of those assets.
2. Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
3. Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which direct expenses of a given function or segment is offset by program revenues. Direct expenses are those clearly identifiable with a specific

HAZLEHURST CITY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2008

function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements:

Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The school district reports the following major governmental funds:

General Fund - This is the school district's primary operating fund. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support, and other costs.

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.

Teacher/Principal Training Fund - This fund accounts for the federal revenues and expenditures associated with the program for teacher and principal training and recruiting.

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 FUND TYPES

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.

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, 2008

FIDUCIARY FUNDS

Private-purpose Trust Funds – Private-purpose trust funds are used to report all trust arrangements, other than those properly reported elsewhere, under which the principal and income benefit individuals, private organizations, or other governments.

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.

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 recorded when earned and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures related to compensated absences and judgments, are recorded only when payment is due.

Federal grants and assistance awards made on the basis of entitlement periods are recorded as receivables and revenues when entitlement occurs. Federal reimbursement type grants are recorded as revenues when the related expenditures are recognized. Use of grant resources is conditioned upon compliance with terms of the grant agreements and applicable federal regulations, which include subjecting grants to financial and compliance audits.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual.

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.

Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

HAZLEHURST CITY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2008

The effect of interfund activity has been eliminated from the government-wide statements.

Revenues from the Mississippi Adequate Education Program Revenues are appropriated on a fiscal year basis and are recorded at the time the revenues are received from the State of Mississippi.

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. Assets, liabilities, and net assets or equity

1. Cash, Cash equivalents and Investments

The district's cash and cash equivalents are considered to be cash on hand, demand deposits, and short term investments with original maturities of three months or less from the date of acquisition. 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.

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 an original maturity greater than three months when acquired.

Investments are reported at fair market value.

2. Receivables and payables.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for

HAZLEHURST CITY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2008

appropriation and are not expendable available financial resources.

3. Due from Other Governments.

Due from other governments represents amounts due from the State of Mississippi, and various grants and reimbursements from other governments.

4. Inventories and Prepaid Items.

Donated commodities are received from the USDA and are valued at USDA cost. Other inventories are valued at cost (calculated on the first-in, first-out basis). The costs of governmental fund type inventories are reported as expenditures when purchased.

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

5. Restricted Assets.

Certain resources set aside for repayment of debt are classified as restricted assets on the balance sheet because their use is limited by applicable debt statutes. Also, the nonexpendable portion of the Permanent Fund, if applicable, is classified as restricted assets because the 16th Section Principal Fund is not available for use by the district except as provided for under state statute for loans from this account.

6. Capital Assets.

Capital assets, which include property, plant, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost or estimated historical cost based on appraisals or deflated current replacement cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of an asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the threshold in the following table and estimated useful lives in excess of two years.

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

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

HAZLEHURST CITY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2008

Improvements other than buildings	25,000	20 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

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

7. **Compensated Absences.**

Employees of the school district accumulate sick leave at a minimum amount as required by state law. A greater amount may be provided by school district policy provided that it does not exceed the provisions for leave as provided in Sections 25-3-93 and 25-3-95. Some employees are allowed personal leave and/or vacation leave in accordance with school district policy. The district pays for unused leave for employees as required by Section 37-7-307(5), Miss. Code Ann. (1972).

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

8. **Long-term liabilities, Deferred Debt Expense, and Bond Discounts/Premiums.**

In the government-wide, proprietary and component unit financial statements, outstanding debt is reported as liabilities. Bond issue cost, bond discounts or premiums, and the difference between reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures. See Note 6 for details.

9. **Fund equity.**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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:

HAZLEHURST CITY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2008

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.

Unreserved, undesignated – An account that represents the portion of fund balance that is expendable available financial resources.

(2) Cash and Cash Equivalents.

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 Deposit Insurance Corporation.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$85,737 and \$99,332, respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and cash equivalents \$(41,915) and Restricted Assets \$127,652. The Restricted Assets represents the cash balance of the 16th section Principal funds (Permanent Funds) which is legally restricted. As of June 30, 2008, \$0 of the district's bank balance of \$641,606 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.

HAZLEHURST CITY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2008

(3) Interfund Receivables, Payables and Transfers.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Child Nutrition fund	\$ 172,789
16 th Section Interest fund	Child Nutrition fund	160,393
	General fund	294,693
	Teacher/Principal Tr. Fund	136,838
Other governmental funds	Teacher/Principal Tr. Fund	7,080
	Other governmental funds	83,344
	Agency funds	<u>70,222</u>
Total Funds		<u>\$ 925,359</u>

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

B. Advances To/From Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Other governmental funds	General fund	<u>3,431</u>
Total		<u>\$ 3,431</u>

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:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	3,431	0	3,431
Total	<u>\$ 3,431</u>	<u>0</u>	<u>3,431</u>

HAZLEHURST CITY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2008

C. Transfers In/Out.

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amount</u>
General fund	Other governmental funds	\$ 461,552
Teacher/Princ. Training fund	Other governmental funds	10,640
16 th Section Interest fund	Other governmental funds	7,043
Other Governmental funds	Other governmental funds	19,964
 Total Funds		 <u>\$ 499,199</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.

(4) Restricted Assets.

The restricted assets represent the cash balances, totaling \$127,352 of the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs.

HAZLEHURST CITY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2008

(5) Capital Assets.

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

	Balance 7-1-2007	Additions	Retirements	Completed Construction	Adjustments	Balance 6-30-2008
<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		46,863			1,401,192
Furniture and equipment	363,193		24,230			338,963
Total depreciable capital Assets	6,529,654	0	71,093	0	0	6,458,561
<u>Less accumulated depreciation for:</u>						
Buildings	(2,325,610)	(66,490)				(2,392,100)
Building improvements	(27,088)	(3,870)				(30,958)
Mobile equipment	(1,043,978)	(58,881)	42,177			(1,060,682)
Furniture and equipment	(333,975)	(9,038)	23,988			(319,025)
Total accumulated depreciation	(3,730,651)	(138,279)	66,165	0	0	(3,802,765)
Total depreciable capital assets, net	2,799,003	(138,279)	4,928	0	0	2,655,796
Governmental activities capital assets, net	\$ 2,824,003	(138,279)	4,928	0	0	2,680,796

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 73,670
Support services	58,881
Non-instructional	5,728
Total depreciation expense	\$ 138,279

HAZLEHURST CITY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2008

(6) Long-term liabilities.

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

	Balance 7-1-2007	Additions	Reductions	Adjustments	Balance 6-30-2008	Amounts due within one year
A. General obligation bonds payable	170,000		170,000		0	
B. Limited obligation bonds Payable	235,000		235,000		0	
C. Transportation equipment loans payable	222,300		47,000		175,300	49,000
D. Compensated absences payable	76,415		8,203		68,212	3,411
Total	<u>\$ 703,715</u>	<u>0</u>	<u>460,203</u>	<u>0</u>	<u>243,512</u>	<u>52,411</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	0
Total				<u>\$ 1,770,000</u>	<u>0</u>

B. Limited obligation bonds payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital Improvement bonds	4.6%	04/01/1998	08/01/2008	\$ 1,465,000	0
Total				<u>\$ 1,465,000</u>	<u>0</u>

HAZLEHURST CITY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2008**

C. Transportation equipment loans 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>
Transportation Equipment Notes Series 2005	3.87%	11/15/05	11/15/11	\$ 267,300	175,300
Total				\$ 267,300	175,300

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:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	\$ 175,300	15,333	190,633

D. Compensated absences payable.

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

(7) Defined Benefit Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The rate for fiscal year ending June 30, 2008 is 11.85% 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, 2008, 2007 and 2006 were \$805,432, \$771,019, and \$720,212, respectively, which equaled the required contributions for each year.

HAZLEHURST CITY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2008

(8) 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, 2008, amounted to \$33,264. Future lease payments for this lease are as follows:

Year Ending June 30	Amount
2009	30,492
Total	\$ 30,492

(9) Sixteenth Section Lands.

Sixteenth section school lands, or lands granted in lieu thereof, constitute property held in trust for the benefit of the public schools. The school board, under the general supervision of the Office of the Secretary of State, has control and jurisdiction of said school trust lands and of all funds arising from any disposition thereof. It is the duty of the school board to manage the school trust lands and all funds arising 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.

Year Ending June 30	Amount
2009	\$ 55,796
2010	42,338
2011	42,338
2012	42,338
2013	42,338
2014 - 2018	211,665
2019 - 2023	181,565
2024 - 2028	161,565
2029 - 2033	156,992
Thereafter	192,328
Total	\$ 1,129,263

HAZLEHURST CITY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2008

(10) 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:	
	(32,824)
Total	\$ <u><u>(32,824)</u></u>

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) Other governmental Funds	(32,824)
Total	\$ <u><u>(32,824)</u></u>

(11) Subsequent Events.

In October 2008, the school district issued a \$400,000 tax and revenue anticipation note.

(12) Risk Management.

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

Participation in Public Entity Risk Pool.

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 95 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 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 Wells Fargo in Portland, Oregon. The funds in the trust account are used to pay any claim up to \$750,000. For a claim exceeding \$750,000, 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

Notes to Financial Statements For the Year Ended June 30, 2008

(13) Other Information.

The district was placed in conservatorship by the Mississippi Department of Education in April, 2008 and day to day operations of the district remain under the control of the Conservator appointed by the Mississippi Department of Education.

(14) Deficit Fund Balance of Individual Funds.

A generic fund type listing of the individual funds that have a deficit fund balance, including amounts of the deficit, is as follows:

<u>Fund</u>	<u>Fund Balance</u>
District Maintenance fund (General fund)	\$ (1,122,418)
Child Nutrition fund	(334,716)

The deficit fund balance of the District Maintenance Fund is in violation of Section 37-61-19, Miss. Code Ann. (1972). Section 37-61-19, Miss. Code Ann. (1972), imposes personal liability on any school official who knowingly enters into any contract, incurs any liability, or makes any expenditure in excess of the resources available for the fiscal year under certain circumstances.

(15) Contingencies.

Federal Grants- The school district has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowances resulting from the grantor audit may become a liability of the school district. As of June 30, 2008, the single audit performed on these federal grants disclosed material instances of noncompliance, as reported in the Schedule of Findings and Questioned Costs. Any disallowance by the grantor agency could result in a liability of the school district, but ultimate resolution cannot presently be determined. Accordingly, no provision for any liability that may result has been recognized in the school district's financial statements.

(15) Uncertainties.

In cases where a township is occupied by two or more school districts, state law requires that available sixteenth section funds shall be divided between the school districts lying wholly or partly within such townships in proportion to the number of children enrolled and residing in each school district. In order to determine what portions of available sixteenth section funds are due to or from other school district, the superintendent of each school district is required to compile lists of such children in compliance with Section 29-3-121, Miss. Code Ann. (1972). Because the Hazlehurst City School District did not file lists of children as required, no division of sixteenth section revenues has been accrued as a receivable or payable, as the case may be.

Of the townships Hazlehurst City School District shares with other school districts, Hazlehurst City School District has control of some of the sixteenth section property. A portion of the sixteenth section revenues (rents, leases, timber sales, etc.) Hazlehurst City School District received on these sections may be due to other school districts. In addition, on the other townships where another school district controls the sixteenth section property, Hazlehurst City School District may be entitled to a portion of the sixteenth section revenue the other school district(s) received. Because Hazlehurst City School District did not compile or file lists of children as state law requires in either the

HAZLEHURST CITY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2008

current year or in preceeding years, neither the amounts of any liabilities owed to other school districts not the amounts of any receivables from other school districts can be determined.

HAZLEHURST CITY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

Hazlehurst City School District
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2008

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 2,291,017	2,111,270	2,116,010	(179,747)	4,740
State sources	7,501,695	7,354,890	7,354,890	(146,805)	-
Federal sources	-	-	-	-	-
Total Revenues	<u>9,792,712</u>	<u>9,466,160</u>	<u>9,470,900</u>	<u>(326,552)</u>	<u>4,740</u>
Expenditures:					
Instruction	5,795,071	5,749,284	5,749,818	45,787	(534)
Support services	3,173,840	3,979,848	3,981,544	(806,008)	(1,696)
Debt service:					
Principal	235,000	235,000	235,000	-	-
Interest	5,405	17,530	17,530	(12,125)	-
Total Expenditures	<u>9,209,316</u>	<u>9,981,662</u>	<u>9,983,892</u>	<u>(772,346)</u>	<u>(2,230)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>583,396</u>	<u>(515,502)</u>	<u>(512,992)</u>	<u>(1,098,898)</u>	<u>2,510</u>
Other Financing Sources (Uses):					
Operating transfers in	782,788	837,808	837,808	55,020	-
Operating transfers out	(1,154,149)	(1,299,360)	(1,299,360)	(145,211)	-
Total Other Financing Sources (Uses)	<u>(371,361)</u>	<u>(461,552)</u>	<u>(461,552)</u>	<u>(90,191)</u>	<u>-</u>
Net Change in Fund Balances	<u>212,035</u>	<u>(977,054)</u>	<u>(974,544)</u>	<u>(1,189,089)</u>	<u>2,510</u>
Fund Balances:					
July 1, 2007			<u>(147,874)</u>		
June 30, 2008			\$ <u>(1,122,418)</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, 2008

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 97,200	153,088	153,088	55,888	-
State sources	-	4,637	4,637	4,637	-
Federal sources	933,200	861,481	861,481	(71,719)	-
Total Revenues	<u>1,030,400</u>	<u>1,019,206</u>	<u>1,019,206</u>	<u>(11,194)</u>	<u>-</u>
Expenditures:					
Support services	134,079	146,904	146,904	(12,825)	-
Noninstructional services	896,321	1,065,804	1,067,050	(169,483)	(1,246)
Total Expenditures	<u>1,030,400</u>	<u>1,212,708</u>	<u>1,213,954</u>	<u>(182,308)</u>	<u>(1,246)</u>
Excess (Deficiency) of Revenues Over Expenditures					
	<u>-</u>	<u>(193,502)</u>	<u>(194,748)</u>	<u>(193,502)</u>	<u>(1,246)</u>
Other Financing Sources (Uses):					
Operating transfers in	-	-	-	-	-
Operating transfers out	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances					
	<u>-</u>	<u>(193,502)</u>	<u>(194,748)</u>	<u>(193,502)</u>	<u>(1,246)</u>
Fund Balances:					
July 1, 2007			(150,129)		
Increase (Decrease) in reserve for inventory			<u>10,161</u>		
June 30, 2008			<u>\$ (334,716)</u>		

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

Hazlehurst City School District
 Budgetary Comparison Schedule
 Teacher/Principal Training Fund
 For the Year Ended June 30, 2008

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	157,950	295,118	295,118	137,168	-
Total Revenues	157,950	295,118	295,118	137,168	-
Expenditures:					
Instruction	94,316	278,080	278,080	(183,764)	-
Support services	63,634	6,398	6,398	57,236	-
Total Expenditures	157,950	284,478	284,478	(126,528)	-
Excess (Deficiency) of Revenues Over Expenditures					
	-	10,640	10,640	10,640	-
Other Financing Sources (Uses):					
Operating transfers out	-	(10,640)	(10,640)	(10,640)	-
Total Other Financing Sources (Uses)	-	(10,640)	(10,640)	(10,640)	-
Net Change in Fund Balances					
	-	-	-	-	-
Fund Balances:					
July 1, 2007			-		
June 30, 2008			\$ -		

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, 2008

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
16th section sources	276,901	127,789	127,789	(149,112)	-
Total Revenues	276,901	127,789	127,789	(149,112)	-
Expenditures:					
Sixteenth section	-	2,596	2,596	(2,596)	-
Total Expenditures	-	2,596	2,596	(2,596)	-
Excess (Deficiency) of Revenues Over Expenditures					
	276,901	125,193	125,193	(151,708)	-
Other Financing Sources (Uses):					
Operating transfers out	-	(7,043)	(7,043)	(7,043)	-
Total Other Financing Sources (Uses)	-	(7,043)	(7,043)	(7,043)	-
Net Change in Fund Balances					
	276,901	118,150	118,150	(158,751)	-
Fund Balances:					
July 1, 2007, as previously reported			542,496		
June 30, 2008			\$ 660,646		

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, 2008

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, 2008

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:		
Child nutrition cluster:		
School breakfast program	10.553	243,127
National school lunch program	10.555	618,353
Summer food service program for children	10.559	10,160
Total child nutrition cluster		<u>871,640</u>
Total passed-through Mississippi Department of Education		<u>871,640</u>
Total U.S. Department of Agriculture		<u>871,640</u>
<u>U.S. Department of Defense</u>		
Direct program:		
Reserve Officers' Training Corps	12.XXX	64,599
Total U.S. Department of Defense		<u>64,599</u>
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	642,399
Career and technical education-basic grants to states	84.048	24,520
Safe and drug-free schools and communities - state grants	84.186	7,279
State grants for innovative programs	84.298	3,459
Improving teacher quality state grants	84.367	295,118
21 st century learning centers	84.287	44,941
Grants for state assessments and related activities	84.369	10
Total		<u>1,017,726</u>
Special education cluster:		
Special education - grants to states	84.027	298,783
Special education - preschool grants	84.173	8,400
Total		<u>307,183</u>
Total passed-through Mississippi Department of Education		<u>1,324,909</u>
Total U.S. Department of Education		<u>1,324,909</u>
Total for All Federal Awards		<u>\$ 2,261,148</u>

NOTES TO SCHEDULE

1. This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the 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, 2008

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other Student Instructional Expenditures</u>	<u>General Administration</u>	<u>School Administration</u>	<u>Other</u>
Salaries and fringe benefits	\$ 10,191,839	7,437,397	629,984	617,978	1,506,480
Other	3,317,227	702,372	351,757	14,029	2,249,069
Total	\$ 13,509,066	8,139,769	981,741	632,007	3,755,549
Total number of students*	1,620				
Cost per student	\$ 8,339	5,025	606	390	2,318

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, 2007-08 School Year

HAZLEHURST CITY SCHOOL DISTRICT

OTHER SUPPLEMENTAL INFORMATION

HAZLEHURST CITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

"UNAUDITED"

General Fund

Last Four Years

	2008	2007*	2006*	2005*
Revenues:				
Local sources	\$ 2,116,010	2,101,399	2,247,141	2,197,126
State sources	7,354,890	7,230,544	6,669,468	6,082,501
Federal sources	-	40	39,123	14,866
Total Revenues	<u>9,470,900</u>	<u>9,331,983</u>	<u>8,955,732</u>	<u>8,294,493</u>
Expenditures:				
Instruction	5,749,818	5,489,261	5,204,325	5,225,502
Support services	3,981,544	3,313,068	3,239,762	2,982,467
Debt service:				
Principal	235,000	250,526	503,009	260,690
Interest	17,530	17,941	28,563	40,794
Total Expenditures	<u>9,983,892</u>	<u>9,070,796</u>	<u>8,975,659</u>	<u>8,509,453</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(512,992)</u>	<u>261,187</u>	<u>(19,927)</u>	<u>(214,960)</u>
Other Financing Sources (Uses):				
Proceeds of loans	-	-	263,018	-
Insurance loss recoveries	-	-	34,917	-
Inception of capital leases	-	-	-	74,984
Operating transfers in	-	-	1,002,276	1,119,943
Operating transfers out	<u>(461,552)</u>	<u>(524,463)</u>	<u>(1,249,160)</u>	<u>(1,196,865)</u>
Total Other Financing Sources (Uses)	<u>(461,552)</u>	<u>(524,463)</u>	<u>51,051</u>	<u>(1,938)</u>
Net Change in Fund Balances	<u>(974,544)</u>	<u>(263,276)</u>	<u>31,124</u>	<u>(216,898)</u>
Fund Balances:				
Beginning of year	(147,874)	117,012	87,988	333,873
Prior period adjustments	-	(1,610)	(2,100)	(28,987)
Beginning of year, as restated	<u>(147,874)</u>	<u>115,402</u>	<u>85,888</u>	<u>304,886</u>
End of year	<u>\$ (1,122,418)</u>	<u>(147,874)</u>	<u>117,012</u>	<u>87,988</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

HAZLERURST CITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

"UNAUDITED"

All Governmental Funds

Last Four Years

	2008	2007*	2006*	2005*
Revenues:				
Local sources	\$ 2,532,521	2,505,697	2,672,207	2,622,677
State sources	7,546,200	7,414,456	6,868,008	6,277,621
Federal sources	2,298,576	2,219,084	2,501,675	2,229,061
Sixteenth section sources	177,554	318,922	311,371	396,219
Total Revenues	<u>12,554,851</u>	<u>12,458,159</u>	<u>12,353,261</u>	<u>11,525,578</u>
Expenditures:				
Instruction	7,449,740	7,024,506	6,964,885	6,698,287
Support services	4,419,264	3,804,486	4,007,216	3,518,165
Noninstructional services	1,118,247	1,068,034	1,023,340	1,016,666
Sixteenth section	38,837	63,628	48,474	244,802
Debt service:				
Principal	452,000	503,526	750,009	558,226
Interest	30,978	44,222	58,322	122,361
Total Expenditures	<u>13,509,066</u>	<u>12,508,402</u>	<u>12,852,246</u>	<u>12,158,507</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(954,215)</u>	<u>(50,243)</u>	<u>(498,985)</u>	<u>(632,929)</u>
Other Financing Sources (Uses):				
Inception of capital lease	-	-	-	74,984
Proceeds of loans	-	-	530,318	-
Insurance loss recoveries	-	-	34,917	-
Operating transfers in	499,199	556,810	1,516,807	1,661,771
Operating transfers out	<u>(499,199)</u>	<u>(556,810)</u>	<u>(1,516,807)</u>	<u>(1,661,771)</u>
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>565,235</u>	<u>74,984</u>
Net Change in Fund Balances	<u>(954,215)</u>	<u>(50,243)</u>	<u>66,250</u>	<u>(557,945)</u>
Fund Balances:				
Beginning of year	650,517	760,989	707,152	1,313,496
Prior period adjustments	<u>(32,824)</u>	<u>(55,216)</u>	<u>(2,100)</u>	<u>(44,168)</u>
Beginning of year, as restated	<u>617,693</u>	<u>705,773</u>	<u>705,052</u>	<u>1,269,328</u>
Increase (Decrease) in reserve for invento	<u>10,161</u>	<u>(5,013)</u>	<u>(10,313)</u>	<u>(4,231)</u>
End of year	<u>\$ (326,361)</u>	<u>650,517</u>	<u>760,989</u>	<u>707,152</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

HAZLEHURST CITY SCHOOL DISTRICT

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

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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, 2008 which collectively comprise Hazlehurst City School District's basic financial statements, and have issued our report thereon dated February 23, 2009. 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 2008-01, 2008-02, 2008-03, 2008-04, 2008-05, 2008-06, 2008-07, 2008-08, 2008-09, 2008-10, 2008-11, 2008-12, 2008-13, 2008-14, 2008-15, and 2008-16 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 2008-01, 2008-02, 2008-03, 2008-04, 2008-05, 2008-06, 2008-07, 2008-08, 2008-09, 2008-10, 2008-11, 2008-12, and 2008-13 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 accompanying Schedule of Findings and Questioned Costs as Findings 2008-01, 2008-02, 2008-03, 2008-04, and 2008-05. We also noted certain immaterial instance of noncompliance or other matters that we have reported to management of the school district in a separate letter dated February 23, 2009, which is included in this report.

Hazlehurst City School District's responses to the findings identified in our audit are described in the accompanying Auditee's Corrective Action Plan. We did not audit Hazlehurst City School District's responses and, accordingly, we express no opinion on them.

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

February 23, 2009

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

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, 2008. 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 Findings 2008-17, 2008-18, 2008-19 and 2008-20 in the accompanying Schedule of Findings and Questioned Costs, the school district did not comply with requirements regarding eligibility testing, allowable costs and verification procedures that are applicable to the Child Nutrition Cluster. Compliance with such requirements is necessary, in our opinion, for the school district to comply with the requirements applicable to these programs.

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, 2008.

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 compliance, but not for the purpose of expressing an 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. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over compliance.

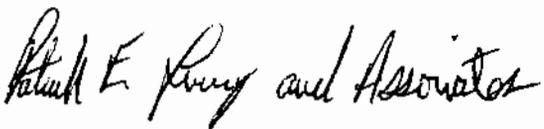
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed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

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 2008-17, 2008-18, 2008-19, 2008-20 and 2008-21 to be significant deficiencies.

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. Of the significant deficiencies in the internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs we consider Findings 2008-17, 2008-18, 2008-19 and 2008-20 to be material weaknesses.

Hazlehurst City School District's response to the findings identified in our audit is described in the accompanying Auditee's Corrective Action Plan. 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

February 23, 2009

HAZLEHURST CITY SCHOOL DISTRICT

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

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**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, 2008 which collectively comprise Hazlehurst City School District's basic financial statements, and have issued our report thereon dated February 23, 2009. 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)(a), 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 \$16,002.37 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.

4. 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 funds 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.

5. The district did not advertise for bids for depositories.

Finding

Section 37-7-333 Miss. Code Ann. (1972), states, "School boards shall advertise and accept bids for depositories, no less than once every three (3) years, when such board determines that it can obtain a more favorable rate of interest and less administrative processing." The district has not advertised for bids for the school depositories within the last three years.

Recommendation

The school district should advertise for competitive bids for depositories in accordance with Section 37-7-333 Miss. Code Ann. (1972).

School Districts Response

We concur.

6. The district did not obtain competitive bids for financing on a lease purchase agreement.

Finding

Section 37-7-13 Miss. Code Ann. (1972), states, "Lease-purchase financing may also be obtained from the vendor or

from a third-party source after having solicited and obtained at least two (2) written competitive bids." The school district entered into a lease purchase agreement to purchase 30 computers from CDW-G and financed them through CIT without obtaining competitive bids for the financing agreements

Recommendation

The school district should obtain competitive bids prior to entering into a lease purchase agreement.

School District Response

We concur.

7. The school district did not follow appropriate procedures regarding PERS retirees hired as independent contractors.

Finding

Section 25-11-127 Miss. Code Ann. (1972) addresses reemployment of PERS retirees by an entity covered under the PERS system. The school district hired 2 individuals that were PERS retirees and did not complete the appropriate forms or notify PERS that the individuals had been performing work for the school district.

Recommendation

The school district should notify PERS when an individual is hired as an independent contractor and is also covered by the PERS retirement system.

School District Response

We concur.

8. The school district should pay substitute teachers at the standard substitute rate of pay.

Finding

The school district hired two PERS retirees as substitute teachers. The employees were paid at their regular daily rate of pay that was in place prior to their retirement rather than the substitute rate of pay.

Recommendation

All substitute teachers should be paid at the standard substitute rate of pay.

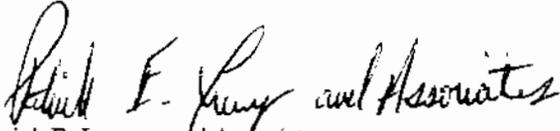
School District Response

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.

The Hazlehurst City School District's responses to the findings included in this report were not audited and, accordingly, we express no opinion on them.

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

February 23, 2009

HAZLEHURST CITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section 1: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|------------------------------------------------------------------------------------------|-------------|
| 1. | Type of auditor's report issued on the financial statements: | Unqualified |
| 2. | Material noncompliance relating to the financial statements? | Yes |
| 3. | Internal control over financial reporting: | |
| a. | Material weaknesses identified? | Yes |
| b. | Significant deficiency(ies) 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 | Qualified |
| | Special Education Cluster | Qualified |
| 5. | Internal control over major programs: | |
| a. | Material weakness identified? | Yes |
| b. | Significant deficiency(ies) identified that is not considered to be a material weakness? | Yes |
| 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. | Special Education Cluster | |
| | CFDA # 84.027 Special Education grants to states | |
| | CFDA # 84.173 Special Education preschool grants | |
| 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

2008-01 Expenditures should be limited to available resources-Repeat from prior year

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 \$1,122,418 in the General fund and a deficit fund balance of \$334,716 in the Food Service fund at June 30, 2008. General Fund expenditures exceeded budgeted amounts by \$1,189,089 and Food Service expenditures exceeded budgeted amounts by \$193,502.

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.

2008-02 The District's payroll system should be in compliance with the United States Department of Labor's Fair Labor Standards Act-Repeat from prior year.

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.

2008-03 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

Free and reduced meal applications could not be located for testing purposes. The MDE review of the applications resulted in numerous deficiencies such as missing applications, incomplete applications, and applications that were approved incorrectly. 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. Due to the errors noted above, the MDE was unable to determine the amount of any overclaim.

Recommendation

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

2008-04 Cash draw downs should only be for the school district's immediate cash needs.

Finding

Program: 21st Century Learning Centers-passed through Mississippi Department of Education
CFDA 84.287

Compliance Requirement-Cash Management

The school district drew funds for the 21st Century Learning Centers Federal Program in excess of its cash needs. The total actual expenditures for year one of the program were \$44,940.55. Total reimbursements were \$63,030.00. This resulted in the school district receiving an excess of \$18,089.45 in funds. These funds are due back to the Mississippi Department of Education.

Recommendation

Internal controls should be put into place to ensure that cash draw downs are only for the school district's immediate cash needs. The over payment of \$18,089.45 should be remitted to the MDE immediately.

2008-05 Federal funds may only be used for allowable costs.

Finding

Program: Special Education Cluster-passed through Mississippi Department of Education
Special Education grants to states: CFDA 84.027
Special Education preschool grants: CFDA 84.173

Compliance Requirement-Allowable costs

A district credit card was used to finance a principal's travel expenses to a "Summer Institute for Educators" in Choctaw, Mississippi. Purchases were made for gasoline for a privately owned vehicle and meals. The Part B funds may not be used to pay for the principal's travel expenses.

Recommendation

Internal controls should be put into place to ensure that funds are only used for allowable costs. The Part B funds that were used for the travel expenditures should be refunded to the Mississippi Department of Education

Material Weaknesses

2008-06 Bank reconciliations should be prepared in a timely manner-Repeat from prior year

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.

2008-07 Controls over E-Rate reimbursements need to be strengthened-Repeat from prior year

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, all funding was lost during the fiscal year.

Recommendation

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

2008-08 Controls over food service revenue should be strengthened.

Finding

Meal service counts were not being entered as the children came through the service line. Student ID numbers were being entered before the children came to the cafeteria. This resulted in absent children being counted as served.

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.

2008-09 Form 941 should be filed on a timely basis

Finding

While examining payroll records, we discovered that the Form 941 had not been filed with the Internal Revenue Service for the first, second, and third quarters of 2008. Not filing 941 forms could result in penalties being assessed to the district by the IRS.

Recommendation

The school district should file Form 941 on a timely basis.

2008-10 New employees should be approved by the school board.

Finding

Upon examination of payroll records and new hires, we determined that 4 new employees of 45 that were tested were not approved for hire by the school board. It is the policy of the district that new employees be approved for hire by the school board. This could result in people who are not employees of the district receiving paychecks.

Recommendation

All new employees should be approved for hire by the Board

2008-11 Rate of pay for some bus drivers was excessive.

Finding

After a review by the Department of Labor, the District changed the method of pay for bus drivers from a set amount per route to an hourly rate. The new hourly rate was based on the existing pay of the driver for the route divided by the time estimated to run the bus route. For example, if a driver was being paid \$40 to run a route that took one hour to run, his pay was changed to \$40 per hour. After this policy was put in place, the pay for bus drivers almost doubled. One employee was being paid over \$500 per week to drive a bus route. We could not find evidence of Board approval for the pay rate change.

Recommendation

Bus drivers should be paid a reasonable hourly rate.

2008-12 Controls over gasoline usage need to be strengthened.

Finding

Gasoline purchases were unreasonable when compared to the miles the district's gasoline powered vehicles traveled. This finding was turned over to the State Auditor's Office for further investigation.

Recommendation

The district should limit access to gas pumps and closely monitor gas usage.

2008-13 Fixed asset inventory should be performed on a regular basis.

Finding

The district did not perform a physical inventory of fixed assets during the fiscal year. A physical inventory was performed in December 2008 and it was determined that a substantial number of fixed assets totaling in excess of \$349,000 were missing. The district has referred the findings of the physical inventory to the State Auditor's Office.

Recommendation

The school district should perform an inventory of fixed assets at least annually.

Significant deficiencies not considered to be Material Weaknesses

2008-14 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.

The district did not have transmittal forms on file. 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.

2008-15 The school district should not pay sales tax.

Finding

The school district is exempt from sales tax. While reviewing invoices, we discovered an invoice for roof repair that had sales tax added to the final balance. The school district paid sales tax in the amount of \$1,244.39.

Recommendation

Internal controls should be put into place that will prevent the school district from paying sales tax on invoices.

2008-16 Salaries should be prorated in accordance with program application.

Finding

Program: Special Education Cluster-passed through Mississippi Department of Education
Special Education grants to states: CFDA 84.027

Special Education preschool grants: CFDA 84.173

Compliance Requirement-Allowable costs

According to the Project Application, the Psychometrist's salary was to be prorated between special education funds and general funds. The entire salary was charged to special education funds.

Recommendation

Salaries for employees to be paid with Federal funds should be prorated in accordance with the project application.

Section 3: Federal Award Findings and Questioned Costs

Material Noncompliance/Material Weakness

2008-17 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

Free and reduced meal applications could not be located for testing purposes. The MDE review of the applications resulted in numerous deficiencies such as missing applications, incomplete applications, and applications that were approved incorrectly. 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. Due to the errors noted above, the MDE was unable to determine the amount of any overclaim.

Recommendation

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

2008-18 Federal funds may only be used for allowable costs.

Finding

Program: Special Education Cluster-passed through Mississippi Department of Education

Special Education grants to states: CFDA 84.027
Special Education preschool grants: CFDA 84.173

Compliance Requirement-Allowable costs

A district credit card was used to finance a principal's travel expenses to a "Summer Institute for Educators" in Choctaw, Mississippi. Purchases were made for gasoline for a privately owned

vehicle and meals. The Part B funds may not be used to pay for the principal's travel expenses.

Recommendation

Internal controls should be put into place to ensure that funds are only used for allowable costs. The Part B funds that were used for the travel expenditures should be refunded to the Mississippi Department of Education.

2008-19 Verification of selected applications for Food Service Department should be performed correctly.

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

Finding

The school district made errors in the verification process that is required by the State of Mississippi Department of Education. The policy and procedures manual states that 3% of the applications must be selected for direct verification with the parents of the children enrolled in the free and reduced lunch program. The school district did not select the required number of applications. The district also did not change the eligibility status for some of the students after verification was processed.

Recommendation

The school district should select 3% of the free and reduced lunch applications for verification and follow the procedures required by the State of Mississippi after verification is performed.

2008-20 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

Meal service counts were not being entered as the children came through the service line. Student ID numbers were being entered before the children came to the cafeteria. This resulted in absent children being counted as served.

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.

Significant deficiency not considered to be a Material Weakness

2008-21 Salaries should be prorated in accordance with program application.

Finding

Program: Special Education Cluster-passed through Mississippi Department of Education

Special Education grants to states: CFDA 84.027

Special Education preschool grants: CFDA 84.173

Compliance Requirement-Allowable costs

Questioned Cost--\$4,223.90

According to the Project Application, the Psycometrists' salary was to be prorated between special education funds and general funds. The entire salary was charged to special education funds.

Recommendation

Salaries for employees to be paid with Federal funds should be prorated in accordance with the project application.

HAZLEHURST CITY SCHOOL DISTRICT

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

Hazlehurst City School District

119 Robert McDaniel Drive

Hazlehurst, MS 39083

State Legal Compliance Findings – Client Response

1. We will begin the process of preparing a list of educable children by township to send to Copiah County School District. The process will be started for the 2008-2009 year.
2. We will begin the process of complying with Section 29-3-119, Miss. Code Ann. (1972) by sharing eligible revenues with Copiah County School District. The process has been started for the 2008-2009 year, and applicable revenues have been transferred for this year.
3. The district has contracted with an outside service provider to assist in bringing the sixteenth section leases to a current status. The process is now substantially complete.
4. All sixteenth section principal loans have been paid in full during the initial months of the 2008-2009 year. No new loans from this permanent trust fund have been made. Only legal transfers from the sixteenth section interest funds have been made since the repayment of these principal loans.
5. The district, in an effort to comply with Section 37-7-333, Miss. Code Ann. (1972), released a request for bids for the safekeeping of district monies during the 2008-2009 year. A local depository was accepted as the best bid, and all monies of the district have been transferred to that qualifying depository.
6. In the future, all leases for equipment will be handled as a "purchase" for purposes of complying with state purchasing laws.
7. In the future, we will complete the required paperwork for all new hires who are also active state retirement system retirees.
8. School District Conservator-approved salary schedules, including substitute teacher rates, are being used to set the rates of substitute teachers. This change was effective for the 2008-2009 year.

Hazlehurst City School District

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Section 2 Findings

2007-01. Expenditures should be limited to available resources – Repeat from prior year.

- a. Responsible for Implementation – Suzanne E. Smith, CPA, Financial Advisor, and James R. Reeves, Conservator.
- b. Corrective Action – A budget has been developed that will eliminate deficit spending in all funds. The state-appointed financial advisor began work in the district in April 2008 and was instrumental in preparing a budget for the 2008-2009 year that held expenditures at a level that would ensure that the fund deficits in the General Fund and the Food Service fund would be eliminated by June 30, 2009. The district was able to end the year with positive fund balances in both funds, even with a state budget cut in minimum adequate education program revenues of more than 3 (three) percent. The 2009-2010 budget has been adopted that will provide for further growth in these two fund's fund balances. The budget is being closely watched to ensure that no expenditures in excess of available financial resources are approved.
- c. Timeline for Implementation – 2008-2009 year.

2007-02. The district's payroll system should be in compliance with the United States Department of Labor's Fair Labor Standards Act – Repeat from prior year.

- a. Responsible for Implementation – Amber Geiser, Business Manager.
- b. Corrective Action – Hours worked by hourly, non-exempt employees will be paid at time plus $\frac{1}{2}$ when these hours exceed 40 in a defined work week. Procedures are in place to capture the overtime hours worked and to pay the premium rate for these hours. While it is the goal of the school district to minimize the overtime work involved, all overtime work will be paid at the premium rate.
- c. Implementation Timeline – January 1, 2009.

2008-03. Controls over eligibility testing by the food service department should be strengthened.

- a. Responsible for Implementation – Mona Fauver, Food Service Director.
- b. Corrective Action – A new Food Service Director was hired October 29, 2008. One of the main responsibilities of this new director is to provide compliance controls over the determination of eligibility in the Federal Child Nutrition Cluster. The controls include safeguarding received applications and making sure that applications are complete and meet eligibility guidelines prior to approval.

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- c. Implementation Timeline – October 29, 2008.

2008-04. Cash draw downs should only be for the school district's immediate cash needs.

- a. Responsible for Implementation – Suzanne E. Smith, CPA, Financial Advisor and Amber Geiser, Business Manager
- b. Corrective Action – A process for requesting federal draw-downs of cash has been implemented that will minimize the delay between the receipt of federal monies and the actual spending of those monies. The overpayment of \$18,089.45 will be remitted immediately upon the request forthcoming from the Mississippi Department of Education
- c. Implementation Timeline – July 1, 2008.

2008-05. Federal funds may be used for only allowable costs.

- a. Responsible for Implementation – Janie Jones, Interim Special Education Director.
- b. Corrective Action – Controls have been implemented to ensure that only allowable expenditures are made from Federal Special Education Cluster grants. The Interim Special Education Director must sign and approve all travel requests and provide coding to substantiate the reasonableness and allowability of the travel to program goals and objectives.
- c. Implementation Timeline – July 1, 2008.

2008-06. Bank reconciliations should be prepared in a timely manner – Repeat from prior year.

- a. Responsible for Implementation – Suzanne E. Smith, CPA, Financial Advisor and Amber Geiser, Business Manager
- b. Corrective Action – Controls have been implemented to ensure that all bank statements are reconciled to general ledger amounts on a monthly basis. The district has signed an agreement with an outside contractor to provide these services on a monthly basis. The work of the outside contractor is reviewed by the Financial Advisor prior to the time that any required adjustments are made to the financial accounting records.
- c. Implementation Timeline – June 1, 2008.

2008-07. Controls over e-rate reimbursements needs to be strengthened – Repeat from prior year.

- a. Responsible for Implementation – Amber Geiser, Business Manager, and Joey Herring, Technology Director.

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- b. Corrective Action – The district has begun a process of assigning the responsibility for requesting e-rate reimbursements. This responsibility has been assigned to the technology director, who will work in conjunction with the district business manager, to manage requests and actually complete the required paperwork to receive reimbursement for e-rate amounts.
- c. Implementation Timeline – 2008-2009 year.

2008-08. Controls over food service revenue should be strengthened.

- a. Responsible for Implementation – Mona Fauver, Food Service Director.
- b. Corrective Action – The food service director has designed a system of capturing daily meal by utilizing the point-of-sale software and training employees on the use of this software. The use of the software and review of the controls in the software will help ensure that meals are claims on eligible children who eat those meals.
- c. Implementation Timeline – 2008-2009 year.

2008-09. Form 941 should be filed on a timely basis.

- a. Responsible for Implementation – Amber Geiser, Business Manager.
- b. Corrective Action – The district has hired a new business manager and payroll clerk to manage the payroll process. All required payroll reports, including Form 941, will be filed on a timely basis by the payroll clerk. The business manager will prepare a timeline and check to make sure that reports are filed in accordance with this timeline.
- c. Implementation Timeline – January 5, 2009.

2009-10. New employees should be approved by the school board.

- a. Responsible for Implementation – Amber Geiser, Business Manager.
- b. Corrective Action – The district has hired a new business manager who will manage parts of the human resources process. All employees will be approved by the district conservator, who is acting as the school board, prior to receiving the approval to begin work. A form will be developed and utilized to notify the individual schools of the approval for individuals to begin work. After a school board is re-established in the district, the board will approve employees instead of the district conservator.
- c. Implementation Timeline – 2008-2009 year.

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2008-11. Rate of pay for some bus drivers was excessive.

- a. Responsible for Implementation – Amber Geiser, Business Manager and James Reeves, District Conservator.
- b. Corrective Action – The district business manager has established and approved wage rate schedules for all hourly employees, including bus drivers. The district conservator, acting as the school board, approved all the rate schedules in a regular action of the conservator. Each individual and their respective rate for the school year 2008-2009 was also approved. All changes to the approved rates must have conservator action. After a school board is re-established in the district, the board will approve employees instead of the district conservator.
- c. Implementation Timeline – 2008-2009 year.

2008-12. Controls over gasoline usage need to be strengthened.

- a. Responsible for Implementation – Daniel Case, Maintenance Director and Amber Geiser, Business Manager.
- b. Corrective Action – All purchases of gasoline and diesel are approved by the maintenance director, who monitors usage and tank levels on gasoline and diesel tanks. The tanks are locked, and the keys are controlled by the maintenance director. The business manager is alert for orders of gasoline and/or diesel that seem high or that are uncustomary. Gasoline usage has dropped significantly since the implementation of these controls.
- c. Implementation Timeline – 2008-2009 year.

2008-13. Fixed asset inventory should be performed on a regular basis.

- a. Responsible for Implementation – Amber Geiser, Business Manager.
- b. Corrective Action – A plan for capturing and recording capital asset information and physically counting all district assets will be developed and implemented. The business manager will assign district staff to ensure that the plan procedures are fully implemented. The district is considering the use of an electronic scanning system to facilitate periodic inventories on district assets. The missing asset inventories have been presented to the Office of the State Auditor for their review and action.
- c. Implementation Timeline – 2009-2010 year.

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2008-14. Controls over activity fund revenues need to be strengthened.

- a. Responsible for Implementation – Amber Gesier, Business Manager.
- b. Corrective Action – Gate reconciliation forms for all district sporting events will be used, reconciled, and maintained as evidence of the amounts collected at these events.
- c. Implementation Timeline – 2009-2010 year.

2008-15. The district should not pay sales taxes.

- a. Responsible for Implementation – Amber Geiser, Business Manager.
- b. Corrective Action – The business department staff involved in the accounts payable process has been training to recognize sales taxes added to invoices and to notify the vendors of the district's refusal to pay such sales taxes. The accounts payable staff will work with vendors to have such amounts removed from the vendors' accounts receivable listings.
- c. Implementation Timeline – 2008-2009 year.

2008-16. Salaries should be prorated in accordance with program application.

- a. Responsible for Implementation – Amber Geiser, Business Manager, and Janie Jones, Special Education Director (Interim).
- b. Corrective Action – All employees approved in the application will be paid according to those amounts outlined in the approved application. The business manager will perform check edits on such employees to ensure the proper distribution of wages in accordance with federal award application percentages or amounts.
- c. Implementation Timeline – 2009-2010 year.

2008-17. Controls over eligibility testing by the food service department should be strengthened.

- a. Responsible for Implementation – Mona Fauver, Food Service Director.
- b. Corrective Action – Free and reduced meal applications will be distributed to all families and processed in accordance with appropriate eligibility guidelines by the Food Service Director. All free and reduced meal applications will be maintained on file in the office of the Food Service Director for audit and monitoring visits.
- c. Implementation Timeline – 2009-2010 year.

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2008-18. Federal funds should be used only for allowable costs.

- a. Responsible for Implementation – Janie Jones, Special Education Director (interim).
- b. Corrective Action – All travel requests will be reviewed for reasonableness and program allowability by the special education director prior to the approval of such travel.
- c. Implementation Timeline – 2009-2010 year.

2008-19. Verification of selected applicants for food service department should be performed correctly.

- a. Responsible for Implementation – Mona Fauver, Food Service Director.
- b. Corrective Action – Free and reduced meal applications will be distributed to all families and processed in accordance with appropriate eligibility guidelines by the Food Service Director. All free and reduced meal applications will be maintained on file in the office of the Food Service Director for audit and monitoring visits.
- c. Implementation Timeline – 2009-2010 year.

2008-20. Controls over food service revenue should be strengthened.

- a. Responsible for Implementation – Mona Fauver, Food Service Director.
- b. Corrective Action – The food service director has designed a system of capturing daily meal by utilizing the point-of-sale software and training employees on the use of this software. The use of the software and review of the controls in the software will help ensure that meals are claims on eligible children who eat those meals.
- c. Implementation Timeline – 2008-2009 year.

2008-21. Salaries should be prorated in accordance with program application.

- a. Responsible for Implementation – Amber Geiser, Business Manager, and Janie Jones, Special Education Director (Interim).
- b. Corrective Action – All employees approved in the application will be paid according to those amounts outlined in the approved application. The business manager will perform check edits on such employees to ensure the proper distribution of wages in accordance with federal award application percentages or amounts.
- c. Implementation Timeline – 2009-2010 year.