



The following document was not prepared by the Office of the State Auditor, but was prepared by and submitted to the Office of the State Auditor by a private CPA firm. The document was placed on this web page as it was submitted. The Office of the State Auditor assumes no responsibility for its content or for any errors located in the document. Any questions of accuracy or authenticity concerning this document should be submitted to the CPA firm that prepared the document. The name and address of the CPA firm appears in the document.

HATTIESBURG PUBLIC SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2011

HATTIESBURG PUBLIC SCHOOL DISTRICT

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	7
MANAGEMENT'S DISCUSSION AND ANALYSIS	11
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Exhibit A - Statement of Net Assets	21
Exhibit B - Statement of Activities	23
Governmental Funds Financial Statements	
Exhibit C - Balance Sheet	25
Exhibit C-1 - Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	27
Exhibit D - Statement of Revenues, Expenditures and Changes in Fund Balances	29
Exhibit D-1 - Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	31
Fiduciary Funds Financial Statements	
Exhibit E - Statement of Fiduciary Assets and Liabilities	33
Notes to the Financial Statements	35
REQUIRED SUPPLEMENTAL INFORMATION	
Budgetary Comparison Schedule - General Fund	57
Budgetary Comparison Schedule - Title I Fund	59
Notes to the Required Supplemental Information	61
SUPPLEMENTAL INFORMATION	
Schedule of Expenditures of Federal Awards	65
Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds	67
OTHER INFORMATION	
Statement of Revenues, Expenditures and Changes in Fund Balances - General Fund, Last Four Years	71
Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Funds, Last Four Years	72
REPORTS ON INTERNAL CONTROL AND COMPLIANCE	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	75
Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	77
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS	81
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	85
AUDITEE'S CORRECTIVE ACTION PLAN	89
SUMMARY OF PRIOR YEAR FINDINGS	93

HATTIESBURG PUBLIC SCHOOL DISTRICT

(This page left blank intentionally)

INDEPENDENT AUDITOR'S REPORT

HATTIESBURG PUBLIC SCHOOL DISTRICT

(This page left blank intentionally)

Suzanne E. Smith, CPA, PLLC
Certified Public Accountant
P. O. Box 7124 • Meridian, MS 39304

Accounting and Auditing Services
Email: sesmithcpa@msn.com

Telephone: 601-482-8040
Cell: 601-938-5717

Member MSCPA

Superintendent and School Board
Hattiesburg Public School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hattiesburg Public School District as of and for the year ended June 30, 2011, which collectively comprise the Hattiesburg Public School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Hattiesburg Public School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 previously 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 Hattiesburg Public School District, as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2012, on our consideration of the Hattiesburg Public School District's internal control over financial reporting and on 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 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hattiesburg Public School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards and the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying



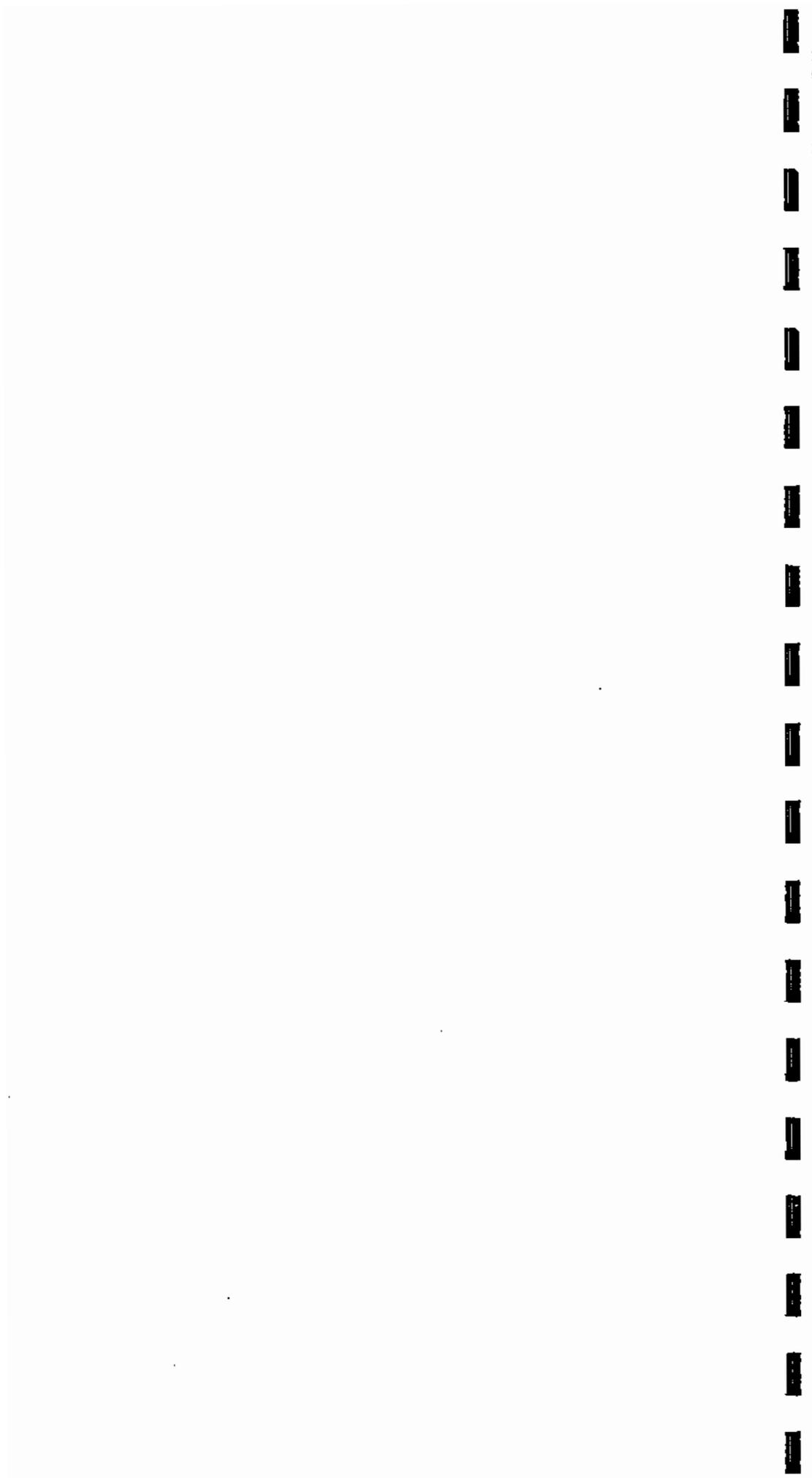
accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hattiesburg Public School District's basic financial statements. The other 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 do not express an opinion or provide any assurance on it.



Suzanne E. Smith, CPA

January 17, 2012



MANAGEMENT'S DISCUSSION AND ANALYSIS

HATTIESBURG PUBLIC SCHOOL DISTRICT

(This page left blank intentionally)

HATTIESBURG PUBLIC SCHOOL DISTRICT

Management's Discussion and Analysis

For the Year Ended June 30, 2011

The following discussion and analysis of Hattiesburg Public School District's financial performance provides an overview of the School District's financial activities for the year ended June 30, 2011. The intent of this discussion and analysis is to look at the School District's performance as a whole. Readers are encouraged to review the financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

- Total net assets for 2011 increased \$1,712,907, including a prior period adjustment of \$68,870, which represents a 9.45% increase from fiscal year 2010. Total net assets for 2010 decreased \$813,226, including a prior period adjustment of (\$11,637), which represents a 4.30% decrease from fiscal year 2009.
- General revenues amounted to \$37,649,767 and \$37,656,183, or 75.55% and 76.13% of all revenues for fiscal years 2011 and 2010, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$12,185,971, or 24.45% of total revenues for 2011, and \$11,805,333, or 23.87% of total revenues for 2010.
- The District had \$48,191,701 and \$50,263,105 in expenses for fiscal years 2011 and 2010; only \$12,185,971 for 2011 and \$11,805,333 for 2010 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$37,649,767 for 2011 were adequate to provide for these programs. General revenues of \$37,656,183 for 2010 were not adequate to provide for these programs.
- Among major funds, the General Fund had \$33,382,225 in revenues and \$32,241,878 in expenditures for 2011, and \$33,728,885 in revenues and \$33,765,241 in expenditures in 2010. The General Fund's fund balance increased by \$1,404,019, including a prior period adjustment of \$59,919 and a decrease in a reserve for inventory of \$4,825, from 2010 to 2011, and decreased by \$887,013, including a decrease in reserve for inventory of \$9,109, from 2009 to 2010.
- Capital assets, net of accumulated depreciation, increased by \$1,637,922 for 2011 and decreased by \$8,085 for 2010. The increase for 2011 was due primarily to work performed on construction contracts and the purchase of mobile equipment.
- Long-term debt, including the liability for compensated absences, increased by \$2,581,623 for 2011 and increased by \$1,222,408 for 2010. This increase for 2011 was due primarily to the issuance of \$3,000,000 in Qualified school construction bonds. The liability for compensated absences increased by a net of \$15,190 for 2011 and increased by \$33,612 for 2010.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the District's basic financial statements, which include government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains required supplemental information, supplemental information, and other information.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the District's finances. These statements consist of the Statement of Net Assets and the Statement of Activities, which are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

The Statement of Activities presents information showing how the District's net assets changed during the most

HATTIESBURG PUBLIC SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2011

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 periods.

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

Fund Financial Statements

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

Governmental funds – Most of the District's general activities are reported in its governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, governmental funds are accounted for using the modified accrual basis of accounting and the flow of current financial resources measurement focus. The approach focuses on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at year end. The governmental fund statements provide a detailed view of the District's near-term financing requirements.

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, the reader may gain a better understanding of the long-term impact of the District's near-term financing decisions. The governmental funds Balance Sheet is reconciled to the Statement of Net Assets, and the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances is reconciled to the Statement of Activities 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 funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for all major funds. All non-major funds are combined 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. These funds are reported using the accrual basis of accounting. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Reconciliation of Government-wide and Fund Financial Statements

The financial statements include two schedules that reconcile the amounts reported on the governmental funds financial statements (modified accrual basis of accounting) with government-wide financial statements (accrual basis of accounting). The following summarizes the major differences between the two statements:

Capital assets used in governmental activities are not reported on governmental funds financial statements.

Capital outlay spending results in capital assets on government-wide financial statements, but is reported as expenditures on the governmental funds financial statements.

Bond and note proceeds result in liabilities on government-wide financial statements, but are recorded as other financing sources on the governmental funds financial statements.

HATTIESBURG PUBLIC SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2011

Certain other outflows represent either increases or decreases in liabilities on the government-wide financial statements, but are reported as expenditures on the governmental funds financial statements.

Notes to the financial statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

Required Supplemental Information

In addition to the basic financial statements and accompanying notes, this report also presents budgetary comparison schedules as required supplemental information. 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 as required by the Governmental Accounting Standards Board.

Supplemental Information

Additionally, a Schedule of Expenditures of Federal Awards as required by OMB Circular A-133 and a Schedule of Instructional, Administrative and Other Expenditures for governmental funds can be found in this report.

Other Information

Although not a required part of the basic financial statements, 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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets

Net assets may serve over time as a useful indicator of the District's financial position. Assets exceeded liabilities by \$19,822,058 as of June 30, 2011.

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.

HATTIESBURG PUBLIC SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2011

Table 1 presents a summary of the District's net assets at June 30, 2011 and June 30, 2010.

Table 1
Condensed Statement of Net Assets

	June 30, 2011	June 30, 2010	Percentage Change
Current assets	\$ 13,123,953	\$ 11,603,690	13.10 %
Restricted assets	3,902,261	3,694,823	5.61 %
Capital assets, net	28,136,471	26,498,549	6.18 %
Total assets	45,162,685	41,797,062	8.05 %
Current liabilities	1,665,261	2,594,168	-35.81 %
Long-term debt outstanding	23,675,366	21,093,743	12.24 %
Total liabilities	25,340,627	23,687,911	6.98 %
Net assets:			
Invested in capital assets, net of related debt	12,588,535	12,264,080	2.65 %
Restricted	6,617,343	5,730,705	15.47 %
Unrestricted	616,180	114,366	438.78 %
Total net assets	\$ 19,822,058	\$ 18,109,151	9.46 %

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

- Increase in net capital assets in the amount of \$1,637,922.
- The issuance of \$7,905,000 in notes payable and refunding bonds payable.
- The issuance of \$3,000,000 in Qualified school construction bonds.
- The principal retirement of \$8,338,513 of long-term debt, which includes the current refunding of \$785,000 of outstanding general obligation bonds and an advance refunding of \$5,415,000 of outstanding general obligation bonds.
- The increase in current assets of \$1,520,263, resulting primarily from an increase in cash on hand in capital projects funds when construction bonds were issued.

Changes in net assets

The District's total revenues for the fiscal years ended June 30, 2011 and June 30, 2010 were \$49,835,738 and \$49,461,516, respectively. The total cost of all programs and services was \$48,191,701 for 2011 and \$50,263,105 for 2010.

HATTIESBURG PUBLIC SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2011

Table 2 presents a summary of the changes in net assets for the fiscal years ended June 30, 2011 and June 30, 2010.

Table 2
Changes in Net Assets

	Year Ended June 30, 2011	Year Ended June 30, 2010	Percentage Change
Revenues:			
Program revenues:			
Charges for services	\$ 464,351	\$ 466,274	(0.41) %
Operating grants and contributions	11,435,791	11,083,437	3.18 %
Capital grants and contributions	285,829	255,622	11.82 %
General revenues:			
Property taxes	18,112,332	17,457,608	3.75 %
Grants and contributions not restricted	18,983,565	19,668,762	(3.48) %
Investment earnings	267,702	358,174	(25.26) %
Sixteenth section sources	173,114	68,798	151.63 %
Other	113,054	102,841	9.93 %
Total revenues	49,835,738	49,461,516	0.76 %
Expenses:			
Instruction	25,324,616	25,859,613	(2.07) %
Support services	19,016,835	20,519,502	(7.32) %
Non-instructional	3,111,471	3,110,716	0.02 %
Sixteenth section	36,246	24,312	49.09 %
Interest	702,533	745,045	(5.71) %
Other		3,917	(100.00) %
Total expenses	48,191,701	50,263,105	(4.12) %
Increase (Decrease) in net assets	1,644,037	(801,589)	(305.10) %
Net Assets, July 1, as originally reported	18,109,151	18,922,377	(4.30) %
Prior Period Adjustment	68,870	(11,637)	(691.82) %
Net Assets, July 1, as restated	18,178,021	18,910,740	(3.87) %
Net Assets, June 30	\$ 19,822,058	\$ 18,109,151	9.46 %

Governmental activities

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

HATTIESBURG PUBLIC SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2011

Table 3
Net Cost of Governmental Activities

	<u>Total Expenses</u>		<u>Percentage Change</u>
	<u>2011</u>	<u>2010</u>	
Instruction	\$ 25,324,616	\$ 25,859,613	(2.07) %
Support services	19,016,835	20,519,502	(7.32) %
Non-instructional	3,111,471	3,110,716	0.02 %
Sixteenth section	36,246	24,312	49.09 %
Interest on long-term liabilities	702,533	745,045	(5.71) %
Other	-	3,917	(100.00) %
Total expenses	\$ 48,191,701	\$ 50,263,105	(4.12) %

	<u>Net (Expense) Revenue</u>		<u>Percentage Change</u>
	<u>2011</u>	<u>2010</u>	
Instruction	\$ (19,899,444)	\$ (21,227,994)	(6.26) %
Support services	(15,234,354)	(16,339,415)	(6.76) %
Non-instructional	(133,153)	(117,089)	13.72 %
Sixteenth section	(36,246)	(24,312)	49.09 %
Interest on long-term liabilities	(702,533)	(745,045)	(5.71) %
Other	-	(3,917)	(100.00) %
Total net (expense) revenue	\$ (36,005,730)	\$ (38,457,772)	(6.38) %

- Net cost of governmental activities [(\$36,005,730) for 2011 and (\$38,457,772) for 2010] was financed by general revenue, which is primarily made up of property taxes (\$18,112,332 for 2011 and \$17,457,608 for 2010) and state and federal revenues (\$18,983,565 for 2011 and \$19,668,762 for 2010). In addition, there was \$173,114 and \$68,798 in Sixteenth Section sources for 2011 and 2010, respectively.
- Investment earnings amounted to \$267,702 for 2011 and \$358,174 for 2010.

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, unassigned fund balance may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$15,503,658, an increase of \$177,423, which includes a prior period adjustment of \$68,816 and a decrease in inventory of \$14,382. \$6,561,193 or 42.32% of the fund balance is unassigned, which represents the residual classification for the general fund's fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The remaining fund balance of \$8,942,465 or 57.68% is either nonspendable, restricted, committed or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted, committed or assigned.

HATTIESBURG PUBLIC SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2011

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$1,404,019, including a prior period adjustment of \$59,919 and a decrease in reserve for inventory of \$4,825. The fund balance of Other Governmental Funds showed a decrease in the amount of \$140,523, which includes a prior period adjustment of \$8,897 and a decrease in reserve for inventory of \$9,557. This decrease in fund balance in Other Governmental Funds is due primarily to the spending of fund balance amounts restricted for building improvements existing at July 1, 2010. The increase (decrease) in the fund balances for the other major funds were as follows:

<u>Major Fund</u>	<u>Increase (Decrease)</u>
Title I Fund	no increase or decrease
QSCB 2010 Fund	\$ 1,358,837
16th Section Principal Fund	no increase or decrease

BUDGETARY HIGHLIGHTS

During the year, the District revised the annual operating budget. Budget revisions were made to address and correct the original budgets to reflect more accurately the sources and uses of funding for the School District.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2011, the District's total capital assets were \$48,342,514, including land, construction in progress, school buildings, building improvements, improvements other than buildings, buses, other school vehicles, furniture and equipment, and leased property under capital lease. This amount represents an increase of \$2,614,082 from 2010. Total accumulated depreciation as of June 30, 2011, was \$20,206,043 and total depreciation expense for the year was \$983,580, resulting in total net capital assets of \$28,136,471.

Capital Assets, Net of Accumulated Depreciation

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Percentage</u> <u>Change</u>
Land	\$ 454,296	\$ 449,765	1.01 %
Construction in Progress	1,590,827	398,611	299.09 %
Buildings	21,751,077	21,262,735	2.30 %
Building improvements	620,132	650,565	(4.68) %
Improvements other than buildings	2,291,529	2,403,022	(4.64) %
Mobile equipment	687,301	384,981	78.53 %
Furniture and equipment	303,032	402,836	(24.78) %
Leased property under capital leases	438,277	546,034	(19.73) %
Total	\$ 28,136,471	\$ 26,498,549	6.18 %

Additional information on the District's capital assets can be found in Note 5 included in this report.

HATTIESBURG PUBLIC SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2011

Debt Administration. At June 30, 2011, the District had \$23,675,366 in outstanding long-term debt, of which \$2,194,435 is due within one year. The liability for compensated absences increased \$15,190 from the prior year. The District issued \$6,355,000 in refunding general obligation bonds. With these proceeds, the district retired through a current refunding \$785,000 in general obligation bonds outstanding and defeased through an advance refunding \$5,415,000 of outstanding general obligation bonds. The district made other principal payments on long-term debt of \$2,138,513.

The District maintains an Aa3 bond rating.

Table 5
Outstanding Long-Term Debt

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Change</u>
General obligation bonds payable	\$ 10,210,000	\$ 11,085,000	(7.89) %
Limited obligation bonds payable	5,149,000	5,738,000	(10.26) %
Three mill notes payable	1,000,000	395,000	153.16 %
Shortfall notes payable	550,000	584,576	(5.91) %
Obligations under capital lease	460,009	-	N/A
Qualified school construction bonds	6,000,000	3,000,000	100.00 %
Compensated absences payable	306,357	291,167	5.22 %
Total	\$ 23,675,366	\$ 21,093,743	12.24 %

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

CURRENT ISSUES

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

The District has committed itself to financial excellence for many years. The District's system of financial planning, budgeting and internal financial controls is well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

The District is proud of its community support of the public schools and is enjoying a steady enrollment and continued academic progress of its students.

Enrollment for the 2010-2011 year increased by 1% to 4,466 students.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have any questions about this report or need additional financial information, contact the Superintendent's Office of the Hattiesburg Public School District, 301 Mamie Street, Hattiesburg, MS 39403.

FINANCIAL STATEMENTS

HATTIESBURG PUBLIC SCHOOL DISTRICT

(This page left blank intentionally)

HATTIESBURG PUBLIC SCHOOL DISTRICT

Statement of Net Assets

Exhibit A

June 30, 2011

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 9,790,551
Due from other governments	3,012,744
Other receivables, net	34,556
Inventories	172,258
Deferred debt issuance costs	113,844
Restricted assets	3,902,261
Capital assets, net of accumulated depreciation	28,136,471
Total Assets	45,162,685
Liabilities	
Accounts payable and accrued liabilities	1,408,712
Interest payable on long-term liabilities	192,882
Bond premiums	63,667
Long-term liabilities, due within one year:	
Capital related liabilities	1,711,517
Non-capital related liabilities	482,918
Long-term liabilities, due beyond one year:	
Capital related liabilities	15,904,992
Non-capital related liabilities	5,575,939
Total Liabilities	25,340,627
Net Assets	
Invested in capital assets, net of related debt	12,588,535
Restricted for:	
Expendable:	
School-based activities	1,674,916
Debt service	1,849,228
Capital improvements	39,401
Unemployment benefits	146,211
Non-expendable:	
Sixteenth section	2,907,587
Unrestricted	616,180
Total Net Assets	\$ 19,822,058

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

HATTIESBURG PUBLIC SCHOOL DISTRICT

(This page left blank intentionally)

HATTIESBURG PUBLIC SCHOOL DISTRICT

Statement of Activities
For the Year Ended June 30, 2011

Exhibit B

Functions/Programs	Expenses	Program Revenues			Governmental Activities	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
Governmental Activities:						
Instruction	\$ 25,324,616	201,929	5,223,243			(19,899,444)
Support services	19,016,835	5,095	3,491,557	285,829		(15,234,354)
Non-instructional	3,111,471	257,327	2,720,991			(133,153)
Sixteenth section	36,246					(36,246)
Interest on long-term liabilities	702,533					(702,533)
Total Governmental Activities	\$ 48,191,701	464,351	11,435,791	285,829		(36,005,730)
General Revenues:						
Taxes:						
General purpose levies 16,053,786						
Debt purpose levies 2,058,546						
Unrestricted grants and contributions:						
State 17,635,523						
Federal 1,348,042						
Unrestricted investment earnings 267,702						
Sixteenth section sources 173,114						
Other 113,054						
<u> Total General Revenues 37,649,767</u>						
Change in Net Assets <u>1,644,037</u>						
Net Assets - Beginning, as originally reported 18,109,151						
Prior Period Adjustments <u>68,870</u>						
Net Assets - Beginning, as restated <u>18,178,021</u>						
Net Assets - Ending <u>\$ 19,822,058</u>						

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

HATTIESBURG PUBLIC SCHOOL DISTRICT

(This page left blank intentionally)

HATTIESBURG PUBLIC SCHOOL DISTRICT

Governmental Funds

Balance Sheet
Exhibit C
June 30, 2011

	Major Funds				Other Governmental Funds	Total Governmental Funds
	General Fund	Title I Fund	QSCB 2010 Fund	16th Section Principal Fund		
Assets						
Cash and cash equivalents	\$ 3,961,587		2,044,630	2,999,403	3,784,334	12,789,954
Cash with fiscal agents					200,000	200,000
Investments					312,461	312,461
Due from other governments	1,480,354	480,188			1,442,599	3,403,141
Due from other funds	1,802,348				706,043	2,508,391
Inventories	74,857				97,401	172,258
Total assets	7,319,146	480,188	2,044,630	2,999,403	6,542,838	19,386,205
Liabilities and Fund Balances						
Liabilities:						
Accounts payable and accrued liabilities	395,958	53,069	585,793		353,988	1,388,808
Due to other funds	108,720	427,119	100,000	91,816	1,766,084	2,493,739
Total Liabilities	504,678	480,188	685,793	91,816	2,120,072	3,882,547
Fund Balances:						
Nonspendable:						
Inventory	74,857				97,401	172,258
Permanent fund principal				2,907,587		2,907,587
Restricted:						
Debt service	178,418				1,927,359	2,105,777
Capital projects			1,358,837		749,137	2,107,974
Grant activities					1,502,658	1,502,658
Unemployment benefits					146,211	146,211
Unassigned	6,561,193					6,561,193
Total Fund Balances	6,814,468	0	1,358,837	2,907,587	4,422,766	15,503,658
Total Liabilities and Fund Balances	\$ 7,319,146	480,188	2,044,630	2,999,403	6,542,838	19,386,205

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

HATTIESBURG PUBLIC SCHOOL DISTRICT

(This page left blank intentionally)

HATTIESBURG PUBLIC SCHOOL DISTRICT

Governmental Funds

**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2011**

Exhibit C-1

Total fund balances for governmental funds \$ 15,503,658

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:

Land	\$ 454,296	
Construction in progress	1,590,827	
Buildings	34,266,665	
Building improvements	760,820	
Improvements other than buildings	3,677,124	
Mobile equipment	1,895,803	
Furniture and equipment	4,427,214	
Leased property under capital leases	1,269,765	
Accumulated depreciation	<u>(20,206,043)</u>	28,136,471

2. Long-term liabilities and related accrued interest are not due and payable in the current period and therefore are not reported in the funds:

General obligation bonds	\$ (3,900,000)	
General obligation refunding bonds	(6,310,000)	
Limited obligation bonds	(5,149,000)	
Three mill notes payable	(1,000,000)	
Shortfall notes payable	(550,000)	
Qualified school construction bonds	(6,000,000)	
Capital lease obligations	(460,009)	
Compensated absences payable	(306,357)	
Unamortized charges	113,844	
Unamortized premiums	(63,667)	
Accrued interest payable	<u>(192,882)</u>	<u>(23,818,071)</u>

Net assets of governmental activities \$ 19,822,058

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

HATTIESBURG PUBLIC SCHOOL DISTRICT

(This page left blank intentionally)

HATTIESBURG PUBLIC SCHOOL DISTRICT

Governmental Funds

**Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2011**

Exhibit D

	Major Funds				Other Governmental Funds	Total Governmental Funds
	General Fund	Title I Fund	QSCB 2010 Fund	16th Section Principal Fund		
Revenues:						
Local sources	\$ 16,453,694	8,957	49,700		2,445,090	18,957,441
State sources	16,619,153				1,870,556	18,489,709
Federal sources	309,378	2,724,297			9,181,799	12,215,474
Sixteenth section sources				91,816	81,298	173,114
Total Revenues	33,382,225	2,733,254	49,700	91,816	13,578,743	49,835,738
Expenditures:						
Instruction	18,201,775	1,210,303			5,871,772	25,283,850
Support services	13,738,370	1,240,057	36		3,493,715	18,472,178
Noninstructional services	151,446	160,868			2,772,685	3,084,999
Sixteenth section					36,246	36,246
Facilities acquisition and construction			1,690,827		508,444	2,199,271
Debt service:						
Principal	124,513				2,679,220	2,803,733
Interest	25,774				701,315	727,089
Other					103,440	103,440
Total Expenditures	32,241,878	2,611,228	1,690,863	0	16,166,837	52,710,806
Excess (Deficiency) of Revenues over (under) Expenditures	1,140,347	122,026	(1,641,163)	91,816	(2,588,094)	(2,875,068)
Other Financing Sources (Uses):						
Bonds and notes issued	550,000		3,000,000		1,000,000	4,550,000
Refunding bonds issued					6,355,000	6,355,000
Payment to escrow agent					200,000	200,000
Premium on bonds and refunding bonds issued					72,762	72,762
Payment to refunded bond escrow agent					(5,534,780)	(5,534,780)
Payment to Qualified Zone Academy debt escrow agent					(200,000)	(200,000)
Operating transfers in	490,072				1,054,679	1,544,751
Operating transfers out	(831,494)	(122,026)		(91,816)	(499,415)	(1,544,751)
Other financing uses					(15)	(15)
Total Other Financing Sources (Uses)	208,578	(122,026)	3,000,000	(91,816)	2,448,231	5,442,967
Net Change in Fund Balances	1,348,925	0	1,358,837	0	(139,863)	2,567,899
Fund Balances:						
July 1, 2010, as originally reported	5,410,449	0	0	2,907,587	4,563,289	12,881,325
Prior period adjustments	59,919				8,897	68,816
July 1, 2010, as restated	5,470,368	0	0	2,907,587	4,572,186	12,950,141
Increase (Decrease) in reserve for inventory	(4,825)				(9,557)	(14,382)
June 30, 2011	\$ 6,814,468	0	1,358,837	2,907,587	4,422,766	15,503,658

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

HATTIESBURG PUBLIC SCHOOL DISTRICT

(This page left blank intentionally)

HATTIESBURG PUBLIC SCHOOL DISTRICT

Governmental Funds

**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, 2011**

Exhibit D-1

Net change in fund balances - total governmental funds \$ 2,567,899

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

1. Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 2,621,577	
Depreciation expense	<u>(983,580)</u>	1,637,997

2. In the statement of activities, only the gain/loss on the sale of assets is reported. While in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the assets sold.

(75)

3. The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and the difference between the carrying value of refunded debt and the acquisition cost of refunded debt when debt is first issued. These amounts are deferred and amortized in the statement of activities:

Bonds and notes issued	\$ (4,550,000)	
Refunding bonds issued	(6,355,000)	
Payment received-QZAB escrow agent	(200,000)	
Premiums on bonds and refunding bonds issued	(72,762)	
Payments of debt principal	2,803,733	
Payments refunded to bond escrow agent	5,534,780	
Payment made-QZAB escrow agent	200,000	
Accrued interest payable	15,461	
Deferred issuance costs	<u>98,840</u>	(2,525,023)

4. Some items reported in the statement of activities do not provide or require the use of current financial resources and therefore are not reported as revenues/expenditures in governmental funds. These activities include:

Change in compensated absences	\$ (15,190)	
Change in inventory reserve	(14,382)	
Amortization of deferred charges, premiums and discounts	<u>(7,264)</u>	(36,836)

Change in net assets of governmental activities \$ 1,644,037

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

HATTIESBURG PUBLIC SCHOOL DISTRICT

(This page left blank intentionally)

HATTIESBURG PUBLIC SCHOOL DISTRICT

Fiduciary Funds

Statement of Fiduciary Assets and Liabilities

Exhibit E

June 30, 2011

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 1,267,052
Due from other funds	19,904
Total Assets	<u>1,286,956</u>
Liabilities	
Accounts payable and accrued liabilities	1,233,244
Due to other funds	34,556
Due to student clubs	19,156
Total Liabilities	<u>\$ 1,286,956</u>

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

HATTIESBURG PUBLIC SCHOOL DISTRICT

(This page left blank intentionally)

HATTIESBURG PUBLIC SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2011

Note 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. Basis of Presentation

In February 2009, the GASB issued GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement No. 54. As a result, amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned, or unassigned.

B. 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 Hattiesburg, Mississippi, 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, Hattiesburg Public 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.

C. Government-wide and Fund Financial Statements

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of inter-fund 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 non-fiduciary 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 outstanding balances of bonds, notes and 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 the direct expenses of a given function, or

HATTIESBURG PUBLIC SCHOOL DISTRICT

Notes to the Financial Statements

For the Year Ended June 30, 2011

segment, are offset by program revenues. Direct expenses are those clearly identifiable with a specific 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 taxes and other items not included among program revenues are reported instead as general revenues.

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

The School District reports the following major governmental funds:

General Fund - This is the School District's primary operating fund. The general fund is used to account for and report all financial resources not accounted for and reported in another fund.

Title I Fund - This is a special revenue fund that accounts for the Title I federal grant award and the revenues and expenditures of that award.

QSCB 2010 Fund - This is a capital projects fund that accounts for the bond proceeds and related construction and facilities acquisition projects financed with the 2010 Qualified School Construction Bonds.

16th Section Principal Fund - This is a permanent fund that accounts for the non-expendable revenues associated with earnings on sixteenth section lands and the investment earnings of these non-expendable revenues.

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

The District's fiduciary funds include the following:

Payroll Clearing Fund - This is a clearing fund used to clear payroll transactions flowing into an imprest clearing account.

Accounts Payable Clearing Fund - This is a clearing fund used to clear accounts payable transactions flowing into an imprest clearing account.

Student Club Funds - The District has student club funds that account for the assets and liabilities associated with student club activities.

Additionally, the School District reports the following fund types:

GOVERNMENTAL FUNDS

Special Revenue Funds - Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Capital Projects Funds - Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Debt Service Funds - Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

HATTIESBURG PUBLIC SCHOOL DISTRICT

Notes to the Financial Statements

For the Year Ended June 30, 2011

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

FIDUCIARY FUNDS

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

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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, as well as 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 taxes, 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.

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

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

HATTIESBURG PUBLIC SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ended June 30, 2011

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting*, 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 maintained to account for commitments or assignments resulting from approved purchase orders, work orders and contracts. However, the School District attempts to liquidate all encumbrances at year-end. Encumbrances outstanding at year-end are not reported within committed or assigned fund balances.

F. Assets, liabilities, and net assets/fund balances

1. Cash, Cash equivalents and Investments

Cash and cash equivalents

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 for the district are reported at fair market value.

2. Receivables and payables

Activities 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 inter-fund loans) or "advances to/from other funds" (i.e. the non-current portion of inter-fund 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 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.

HATTIESBURG PUBLIC SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2011

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 Statement of Net Assets because their use is limited by applicable debt statutes, e.g. Qualified Zone Academy Bond sinking funds. 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 fund.

6. Capital Assets

Capital assets include land, improvements to land, easements, water rights, timber rights, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Capital assets 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 the 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 thresholds in the table below.

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

Depreciation is calculated on the straight-line basis for all assets, except land.

The following schedule details the capitalization thresholds:

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

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

HATTIESBURG PUBLIC SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2011

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 a long-term liability 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 liability for compensated absences 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 financial statements, outstanding debt is reported as liabilities. Bond issuance costs, 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 Balances

Fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Governmental fund balance is classified as nonspendable, restricted, committed, assigned or unassigned. Following are descriptions of fund classifications used by the District:

Nonspendable fund balance includes items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds are restricted, committed, or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.

Restricted fund balance includes amounts that have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

Committed fund balance includes amounts that can be used only for the specific purposes pursuant to constraints imposed by a formal action of the School Board, the District's highest level of decision-making authority. This formal action is the official approval of the commitment spread upon the School Board's minutes.

Assigned fund balance includes amounts that are constrained by the District's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the general fund, this is the residual amount within the fund that is not restricted or committed. Assignments of fund balance are created by the School District business manager pursuant to authorization established by official School Board policy.

HATTIESBURG PUBLIC SCHOOL DISTRICT

Notes to the Financial Statements

For the Year Ended June 30, 2011

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, it may be necessary to report a negative unassigned fund balance.

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) resources are available, it is the District's general policy to use restricted resources first. When expenditures/expenses are incurred for purposes for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the District's general policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

Note 2 – Cash and Cash Equivalents, Cash with Fiscal Agents, and Investments

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

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

Investments. Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the School Board to invest excess funds in the types of investments authorized by Section 27-105-33(d) and (e), Miss. Code Ann. (1972). This section permits the following types of investments: (a) certificates of deposit interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, not to exceed fifty percent of all monies invested with maturities of thirty days or longer; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or other interests in, any open-end or closed-end management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration, not to exceed twenty percent of invested excess funds. Investment income on bond funds (Capital Projects), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Investment income of less than \$100 can be credited to the General Fund.

Cash and Cash Equivalents

The carrying amount of the School District's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$12,789,954 and \$1,267,052, respectively.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2011, none of the District's bank balance of \$15,289,105 was exposed to custodial credit risk.

HATTIESBURG PUBLIC SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2011

Cash with Fiscal Agents

The carrying amount of School District's cash with fiscal agents held by financial institutions was \$200,000.

Investments

As of June 30, 2011, the District had the following investments.

<u>Investment Type</u>	<u>Rating</u>	<u>Maturities in Years</u>	<u>Fair Value</u>
Hancock Bank Federal U.S. Treasury Cash Reserve Money Market Funds	AAAm	Less than 1	\$ 312,461
Total			\$ <u>312,461</u>

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

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

Custodial Credit Risk – Investments. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a formal investment policy that addresses custodial credit risk.

Note 3 – Inter-fund Receivables, Payables and Transfers

The following is a summary of inter-fund transactions and balances:

A. Due From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Title I Fund	\$ 427,119
	16th Section Principal Fund	91,816
	Other governmental funds	1,248,857
	Fiduciary funds	34,556
Other Governmental Funds	General Fund	108,720
	QSCB 2010 Fund	100,000
	Other Governmental Funds	497,323
Fiduciary Funds	Other Governmental Funds	19,904
Total		\$ <u>2,528,295</u>

The amounts due to the General Fund from the Title I Fund and other governmental funds represent interfund loans required to clear negative cash balances in a pooled checking account. Amounts due to the General Fund from fiduciary funds represent interest income earned in the two imprest clearing checking

HATTIESBURG PUBLIC SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2011

accounts that is due to the General Fund at June 30, 2011. Other interfund balances are the result of operating transfers.

B. Inter-fund Transfers

Transfers Out	Transfers In	Amount
General Fund	Other governmental funds	\$ 831,494
Title I Fund	General Fund	122,026
16th Section Principal Fund	General Fund	91,816
Other governmental funds	General Fund	276,230
	Other governmental funds	223,185
Total		<u>\$ 1,544,751</u>

Transfers from the General Fund to the other governmental funds were made for operating purposes, while the transfer from the Title I Fund was made to move indirect costs from the Title I Fund to the General Fund. A transfer of \$91,816 was made from the 16th Section Principal Fund to the General Fund upon formal order of the School Board.

Note 4 – Restricted Assets

The restricted assets represent the cash balance (\$2,999,403) 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; the investment balance (\$312,461) and the amounts due from other governments (\$390,397) of the MAEP Debt Service Fund, which are legally restricted and may not be used for purposes that support the District's programs; and the cash with fiscal agents (\$200,000) of the QSCB 2009 Asset Fund, which is also restricted and not available to support the programs of the district. Total restricted assets are \$3,902,261.

Note 5 – Capital Assets

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

HATTIESBURG PUBLIC SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2011

	Balance 7/1/2010	Increases	Decreases	Completed Construction	Balance 6/30/2011
Governmental Activities:					
Non-depreciable capital assets:					
Land	\$ 449,765	4,531			454,296
Construction in progress	398,611	2,199,271		(1,007,055)	1,590,827
Total non-depreciable capital assets	848,376	2,203,802		(1,007,055)	2,045,123
Depreciable capital assets:					
Buildings	33,259,610			1,007,055	34,266,665
Building improvements	760,820				760,820
Improvements other than buildings	3,677,124				3,677,124
Mobile equipment	1,503,390	392,413			1,895,803
Furniture and equipment	4,409,347	25,362	(7,495)		4,427,214
Leased property under capital leases	1,269,765				1,269,765
Total depreciable capital assets	44,880,056	417,775	(7,495)	1,007,055	46,297,391
Less accumulated depreciation for:					
Buildings	11,996,875	518,713			12,515,588
Building improvements	110,255	30,433			140,688
Improvements other than buildings	1,274,102	111,493			1,385,595
Mobile equipment	1,118,409	90,093			1,208,502
Furniture and equipment	4,006,511	125,091	(7,420)		4,124,182
Leased property under capital leases	723,731	107,757			831,488
Total accumulated depreciation	19,229,883	983,580	(7,420)	-	20,206,043
Total depreciable capital assets, net	25,650,173	(565,805)	(75)	-	26,091,348
Governmental activities capital assets, net	\$ 26,498,549	1,637,997	(75)	-	28,136,471

Depreciation expense was charged to the following governmental functions:

	Amount
Governmental activities:	
Instruction	\$ 27,732
Support services	926,643
Non-instructional	29,205
Total depreciation expense - Governmental activities	\$ 983,580

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

Construction in progress is composed of:

HATTIESBURG PUBLIC SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2011

	Spent to June 30, 2011	Remaining Commitment
Governmental Activities:		
Hattiesburg High Instructional Building	\$ 745,521	\$ 1,406,160
Hattiesburg High Locker Rooms	525,689	889,920
Hattiesburg High Drainage Project	239,194	224,640
Hattiesburg High Lighting Project	80,423	231,120
Total governmental activities	\$ 1,590,827	\$ 2,751,840

Construction projects included in governmental activities are funded with local funds committed to building improvements and restricted debt proceeds.

Note 6 – Long-term Liabilities

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

	Balance 7/1/2010	Additions	Reductions	Adjustment s	Balance 6/30/2011	Amounts due within one year
A. General obligation refunding bonds payable	\$ 11,085,000	6,355,000	7,230,000		10,210,000	1,190,000
B. Limited obligation refunding bonds payable	5,738,000		589,000		5,149,000	609,000
C. Three mill notes payable	395,000	1,000,000	395,000		1,000,000	100,000
D. Shortfall notes payable		550,000			550,000	178,418
E. Obligations under capital lease	584,576		124,513	(54)	460,009	117,017
F. Qualified school construction bonds	3,000,000	3,000,000			6,000,000	
G. Compensated absences payable	291,167	39,759	24,569		306,357	
Subtotal	\$ 21,093,743	10,944,759	8,363,082	(54)	23,675,366	2,194,435
Add: Deferred amounts for premiums	-	72,762	9,095		63,667	
Less: Deferred amounts on refunding	(31,363)	(98,840)	(16,359)		(113,844)	
Total	\$ 21,062,380	10,918,681	8,355,818	(54)	23,625,189	

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:

HATTIESBURG PUBLIC SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2011

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General obligation refunding bonds, series					
1. 2003-A	3.5 - 5.0%	15-Apr-03	15-Apr-19	\$ 5,250,000	\$ 3,900,000
General obligation refunding bonds, series					
2. 2010	1.0 - 3.0%	1-Apr-11	1-Apr-18	6,355,000	6,310,000
Total				<u>\$ 11,605,000</u>	<u>\$ 10,210,000</u>

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

1. General obligation refunding bond issue of April 15, 2003:

Year Ending June 30	Principal	Interest	Total
2012	\$ 250,000	140,875	390,875
2013	250,000	128,375	378,375
2014	375,000	119,000	494,000
2015	400,000	104,795	504,795
2016	450,000	91,875	541,875
2017-2019	2,175,000	176,750	2,351,750
Total	<u>\$ 3,900,000</u>	<u>761,670</u>	<u>4,661,670</u>

This debt will be retired from the Bond Retirement Fund.

2. General obligation refunding bond issue of April 1, 2011:

Year Ending June 30	Principal	Interest	Total
2012	\$ 940,000	137,925	1,077,925
2013	985,000	128,525	1,113,525
2014	1,060,000	108,825	1,168,825
2015	790,000	87,625	877,625
2016	845,000	71,825	916,825
2017-2018	1,690,000	76,650	1,766,650
Total	<u>\$ 6,310,000</u>	<u>611,375</u>	<u>6,921,375</u>

This debt will be retired from the Bond Retirement Fund.

HATTIESBURG PUBLIC SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2011

Total general obligation bond payments for all issues:

Year Ending June 30		Principal	Interest	Total
2012	\$	1,190,000	278,800	1,468,800
2013		1,235,000	256,900	1,491,900
2014		1,435,000	227,825	1,662,825
2015		1,190,000	192,420	1,382,420
2016		1,295,000	163,700	1,458,700
2017 - 2019		3,865,000	253,400	4,118,400
Total	\$	10,210,000	1,373,045	11,583,045

The amount of bonded indebtedness that can be incurred by the School District is limited by Sections 37-59-5 and 37-59-7, Miss. Code Ann. (1972). Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in Section 37-59-7, Miss. Code Ann. (1972) have been met. As of June 30, 2011, the amount of outstanding bonded indebtedness was equal to 4% of property assessments as of October 1, 2010.

Combined Current and Advance Refunding

On April 1, 2011, the district issued \$6,355,000 in general obligation refunding bonds with an average interest rate of 2% to retire through a current refunding \$785,000 of outstanding general obligation bonds and to advance refund \$5,415,000 of outstanding general obligation bonds with an average interest rate of 4.30%. The net proceeds of \$5,534,780 after payments for the current refunding, issuance costs, and a bond premium of \$72,762 were deposited in an irrevocable trust with an escrow agent to provide for all future debt payment requirements on the general obligation bonds.

As a result, \$5,415,000 of the Series 2002 general obligation bonds are considered to be defeased and the liability for those bonds has been removed from long-term liabilities.

The district advance refunded the Series general obligation bonds to reduce its total debt service payments over the remaining ten years of the debt by approximately \$404,613 and to realize an economic gain of \$577,050.

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:

HATTIESBURG PUBLIC SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2011

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Slate Aid capital improvement, Refunding Series 2008	3.34%	31-Jul-08	1-Feb-18	\$ 5,973,000	\$ 5,149,000
Total				\$ 5,973,000	\$ 5,149,000

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

Limited obligation bond issue of July 31, 2008:

Year Ending June 30	Principal	Interest	Total
2012	\$ 609,000	161,806	770,806
2013	629,000	141,132	770,132
2014	650,000	119,773	769,773
2015	672,000	97,695	769,695
2016	694,000	74,883	768,883
2017-2018	1,895,000	78,224	1,973,224
Total	\$ 5,149,000	673,513	5,822,513

This debt will be retired from the MAEP Debt Retirement Fund.

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

The School District has pledged a portion of future state Minimum Adequate Education Program revenues to repay \$5,149,000 in limited obligation bonds payable issued. Proceeds from the bonds were used to finance capital improvements made to the District's buildings. The bonds are payable solely from future revenues of the state Minimum Adequate Education Program and are payable through February 1, 2018. Annual principal and interest payments on the bonds are expected to require approximately one (1) percent of such state revenues. The total principal and interest remaining to be paid on the bonds is \$5,822,513. Principal and interest paid for the current year and total state Minimum Adequate Education Program revenues were \$770,813 and \$17,106,592, respectively.

C. Three mill notes payable

Debt currently outstanding is as follows:

HATTIESBURG PUBLIC SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2011

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Limited Tax Notes, Series 2011	2.84%	7-Mar-11	9-Mar-19	\$ 1,000,000	\$ 1,000,000
Total				<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>

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

Three mill notes payable issue of March 7, 2011:

Year Ending June 30	Principal	Interest	Total
2012	\$ 100,000	28,400	128,400
2013	100,000	25,560	125,560
2014	110,000	22,720	132,720
2015	120,000	19,596	139,596
2016	130,000	16,188	146,188
2017-2019	440,000	25,276	465,276
Total	<u>\$ 1,000,000</u>	<u>137,740</u>	<u>1,137,740</u>

The debt will be retired from the 3 Mill Debt Service Fund.

D. Shortfall notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Tax Shortfall Note, Series 2010	2.73%	12-Jul-10	12-Jul-13	\$ 550,000	\$ 550,000
Total				<u>\$ 550,000</u>	<u>\$ 550,000</u>

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

Shortfall notes payable of July 12, 2010:

HATTIESBURG PUBLIC SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2011

Year Ending June 30	Principal	Interest	Total
2012	\$ 178,418	15,015	193,433
2013	183,289	10,144	193,433
2014	188,293	5,140	193,433
Total	\$ 550,000	30,299	580,299

The note will be retired from the General fund.

E. Obligations under capital lease

The School District has entered into three lease agreements as lessee for financing the acquisition of real property improvements and buses at a total cost of \$1,269,765. These leases qualify as capital leases for accounting purposes.

The various options available to the lessee for this lease are as follows:

1. The School District has entered into a master lease agreement for the lease of two buses, one 30-passenger mini bus, two drivers' education cars, and two service trucks for a total of \$283,266 at 4.66% interest. The original issue date was October 17, 2001. This lease expires September 10, 2011, and does not contain any renewal options. The district will take possession of the assets at the end of the lease term. This debt will be retired from the General Fund. The amount outstanding on this lease at June 30, 2011, is \$12,989.
2. The School District has entered into a master lease agreement for the lease of ten buses for a total of \$486,000 at 4.13% interest. The original issue date was September 10, 2004. This lease expires September 10, 2014, and does not contain any renewal options. The district will take possession of the assets at the end of the lease term. This debt will be retired from the General Fund. The amount outstanding on this lease at June 30, 2011, is \$194,075.
3. The School District has entered into a master lease agreement for the lease of ten buses for a total of \$499,999 at 5.08% interest. The original issue date was May 23, 2008. This lease expires October 10, 2015, and does not contain any renewal options. The debt will be retired from the General Fund. The amount outstanding on this lease at June 30, 2011, is \$252,945.

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

HATTIESBURG PUBLIC SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2011

Year Ending June 30	Principal	Interest and Maintenance Charges	Total
2012	\$ 117,017	19,982	136,999
2013	108,869	14,842	123,711
2014	113,936	9,775	123,711
2015-2016	120,187	5,256	125,443
Total	\$ 460,009	49,855	509,864

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

This debt will be retired from the General Fund.

F. Qualified school construction bonds payable

As more fully explained in Note 14, debt has been issued by the School District that qualifies as Qualified School Construction bonds. Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Qualified School Construction Bonds, Series					
1. 2009	0.95%	15-Sep-09	15-Sep-04	\$ 3,000,000	\$ 3,000,000
Qualified School Construction Bonds, Series					
2. 2010	1.25%	1-Dec-10	1-Dec-25	3,000,000	3,000,000
Total				\$ 6,000,000	\$ 6,000,000

G. 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.

Note 7 - Short-Term Financing

During the fiscal year ended June 30, 2010, the School District participated in the following short-term financing for the purpose of funding a tax anticipation note.

HATTIESBURG PUBLIC SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2011

A. Bank-financed short term debt.

The School District issued a revenue anticipation note payable to The First, a National Banking Association in Hattiesburg, Mississippi, on November 17, 2010. The proceeds from the issuance were used to provide positive cash flows during the months preceding major ad valorem tax collections. Once the District's cash flows were positive, the district made a payment consisting of principal and interest to the bank to repay the short term debt. The debt was paid in full at June 30, 2011.

All transactions related to this debt are accounted for as part of the School District's General Fund.

Description	Balance 7/1/2010	Additions	Reductions	Balance 6/30/2011
Tax Anticipation Note	\$ -	2,000,000	2,000,000	-
	\$ -	2,000,000	2,000,000	-

Note 8 – Other Commitments

Commitments under construction contracts are described in Note 5.

Note 9 – 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 9.00% of their annual covered salary, and the School District is required to contribute at an actuarially determined rate. The employer's rate for fiscal year ended June 30, 2011 was 12.00% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The School District's contributions to PERS for the fiscal years ending June 30, 2011, 2010 and 2009 were \$3,020,735, \$3,181,871 and \$3,090,520, respectively, which equaled the required contributions for each year.

Note 10 – 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.

HATTIESBURG PUBLIC SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2011

Year Ending June 30	Amount
2012	\$ 27,952
2013	27,622
2014	26,522
2015	26,522
2016	26,162
2017 – 2021	130,807
2022 – 2026	127,320
2027 – 2031	112,757
2032 – 2036	76,368
Thereafter	60,902
Total	\$ 642,934

Note 11 – Prior Period Adjustments

A summary of significant fund balance adjustments is as follows:

Exhibit B - Statement of Activities

Explanation	Amount
1. An error in recording a prior period asset or liability	\$ 68,816
2. An error in recording prior year long-term debt obligations	54
Total	\$ 68,870

Exhibit D - Statement of Revenues, Expenditures and Changes in Fund Balances

Fund	Explanation	Amount
General Fund	An error in recording a prior year asset or liability	\$ 68,816
Total		\$ 68,816

Note 12 – 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.

Litigation – The School District is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate the outcome or liability, if any, of the School District with respect to the various proceedings. However, the School District's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the School District.

HATTIESBURG PUBLIC SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2011

Note 13 – Risk Management

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

Note 14 – Qualified School Construction Bonds

Section 1521 of the American Recovery and Reinvestment Act (ARRA) of 2010 provides for a source of capital at no or minimal interest rates for costs incurred by certain public schools in connection with the construction, rehabilitation or repair of a public school facility or for the acquisition of land where a school will be built. Investors receive Federal income tax credits at prescribed tax credit rates in lieu of interest, which essentially allows state and local governments to borrow without incurring interest costs or to borrow at minimal rates.

The School District makes equal annual payments into a sinking fund which is used to retire the bonds at termination. The current maturity limit of tax credit bonds is 17 years, per the U.S. Treasury Department. Under this program, ten percent of the proceeds must be subject to a binding commitment to be spent within six months of issuance and 100% must be spent within three years. Up to two percent of bond proceeds can be used to pay costs of issuance. The amount on deposit at June 30, 2011 was \$200,000. The amount accumulated in the sinking fund at the end of the seventeen-year period will be sufficient to retire the debt. The following schedule reports the annual deposits for the two bond series to be made to the sinking fund by the School District.

Year Ending June 30	Amount
2012	\$ 400,000
2013	400,000
2014	400,000
2015	400,000
2016	400,000
2017-2021	2,000,000
2022-2026	1,800,000
Total	\$ 5,800,000

Note 15 – Subsequent Events

Events that occur after the Statement of Net Assets date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Assets date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Assets date require disclosure in the accompanying notes. Management of the Hattiesburg Public School District evaluated the activity of the district through January 17, 2012, and determined that the following subsequent event has occurred requiring disclosure in the notes to the financial statements.

The School District issued a \$60,000 shortfall note on August 4, 2011. This note was issued subsequent to a shortfall in ad valorem tax revenues and other local revenues for the 2010-2011 year.

REQUIRED SUPPLEMENTAL INFORMATION

HATTIESBURG PUBLIC SCHOOL DISTRICT

(This page left blank intentionally)

HATTIESBURG PUBLIC SCHOOL DISTRICT

Required Supplemental Information

**Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2011**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 16,765,000	16,544,651	16,453,694	(220,349)	(90,957)
State sources	17,216,211	16,620,854	16,619,153	(595,357)	(1,701)
Federal sources	499,775	374,983	309,378	(124,792)	(65,605)
Total Revenues	34,480,986	33,540,488	33,382,225	(940,498)	(158,263)
Expenditures:					
Instruction	19,326,114	18,228,571	18,201,775	1,097,543	26,796
Support services	13,957,764	13,987,464	13,738,370	(29,700)	249,094
Noninstructional services	109,049	162,020	151,446	(52,971)	10,574
Facilities acquisition and construction	150,000	150,000			150,000
Debt service:					
Principal	124,513	124,513	124,513	0	0
Interest	25,774	25,774	25,774	0	0
Total Expenditures	33,693,214	32,678,342	32,241,878	1,014,872	436,464
Excess (Deficiency) of Revenues over (under) Expenditures	787,772	862,146	1,140,347	74,374	278,201
Other Financing Sources (Uses):					
Bonds and notes issued		550,000	550,000	550,000	0
Insurance recovery	3,000	3,000	0	0	(3,000)
Operating transfers in	5,776,393	5,956,336	490,072	179,943	(5,466,264)
Operating transfers out	(6,513,011)	(6,282,280)	(831,494)	230,731	5,450,786
Total Other Financing Sources (Uses)	(733,618)	227,056	208,578	960,674	(18,478)
Net Change in Fund Balances	54,154	1,089,202	1,348,925	1,035,048	259,723
Fund Balances:					
July 1, 2010, as originally reported	5,000,000	5,410,449	5,410,449	410,449	0
Prior period adjustments			59,919	0	59,919
July 1, 2010, as restated	5,000,000	5,410,449	5,470,368	410,449	59,919
Increase (Decrease) in reserve for inventory		(4,825)	(4,825)	(4,825)	
June 30, 2011	\$ 5,054,154	6,494,826	6,814,468	1,440,672	319,642

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

HATTIESBURG PUBLIC SCHOOL DISTRICT

(This page left intentionally)

HATTIESBURG PUBLIC SCHOOL DISTRICT

Required Supplemental Information

**Budgetary Comparison Schedule
Title I Fund
For the Year Ended June 30, 2011**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources		8,957	8,957	8,957	0
Federal sources	\$ 3,986,258	3,986,258	2,724,297	0	(1,261,961)
Total Revenues	3,986,258	3,995,215	2,733,254	8,957	(1,261,961)
Expenditures:					
Instruction	1,889,769	1,889,769	1,210,303	0	679,466
Support services	1,683,246	1,692,203	1,240,057	(8,957)	452,146
Noninstructional services	291,217	291,217	160,868	0	130,349
Total Expenditures	3,864,232	3,873,189	2,611,228	(8,957)	1,261,961
Excess (Deficiency) of Revenues over (under) Expenditures	122,026	122,026	122,026	0	0
Other Financing Sources (Uses):					
Operating transfers out	(122,026)	(122,026)	(122,026)	0	0
Total Other Financing Sources (Uses)	(122,026)	(122,026)	(122,026)	0	0
Net Change in Fund Balances	0	0	0	0	0
Fund Balances:					
July 1, 2010	0	0	0	0	0
June 30, 2011	\$ 0	0	0	0	0

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

HATTIESBURG PUBLIC SCHOOL DISTRICT

(This page left blank intentionally)

HATTIESBURG PUBLIC SCHOOL DISTRICT
Notes to the Required Supplemental Information
For the Year Ended June 30, 2011

Budgetary Comparison Schedule

(1) Basis of Presentation

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

(2) Budget Amendments and Revisions

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

HATTIESBURG PUBLIC SCHOOL DISTRICT

(This page left blank intentionally)

SUPPLEMENTAL INFORMATION

HATTIESBURG PUBLIC SCHOOL DISTRICT

(This page left blank intentionally)

HATTIESBURG PUBLIC SCHOOL DISTRICT

Supplemental Information

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011**

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance No.	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	\$ 938,507
National school lunch program	10.555	2,088,933
Summer food service program for children	10.559	79,161
Total child nutrition cluster		<u>3,106,601</u>
Total U.S. Department of Agriculture		<u>3,106,601</u>
<u>U.S. Department of Defense</u>		
Direct Program:		
Reserve Officers' Training Corps	12.xxx	66,116
Total U.S. Department of Defense		<u>66,116</u>
<u>U.S. Department of Transportation</u>		
Passed-through Mississippi Department of Transportation:		
ARRA Highway planning and construction	20.205	408,445
Total U.S. Department of Transportation		<u>408,445</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.xxx	237,481
Total Federal Communications Commission		<u>237,481</u>
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Adult education-basic grants to states	84.002	148,712
Career and technical education - basic grants to states	84.048	87,178
Safe and drug-free schools and communities- state grants	84.186	10,160
Education technology state grants	84.318	25,222
Reading first state grants	84.357	177,234
English language acquisition grants	84.365	29,472
Improving teacher quality - state grants	84.367	437,540
School improvement grants	84.377	15,734
Subtotal		<u>931,252</u>
Title I cluster:		
Title I grants to local educational agencies	84.010	3,260,213
ARRA - Title I grants to local educational agencies, Recovery Act	84.389	1,513,593
Total Title I cluster		<u>4,773,806</u>
Special education cluster:		
Special education - grants to states	84.027	1,093,629
Special education - preschool grants	84.173	47,354
ARRA - Special education grants to states, Recovery Act	84.391	891,865
ARRA - Special education - preschool grants, Recovery Act	84.392	8,310
Total special education cluster		<u>2,041,158</u>
State Fiscal Stabilization Fund cluster:		
ARRA - State Fiscal Stabilization Fund - Education state grants, Recovery Act	84.394	1,076,166
Total State Fiscal Stabilization Fund cluster		<u>1,076,166</u>
Education for homeless children and youth cluster:		
ARRA-Education for homeless children and youth, Recovery Act	84.387	1,000
Total Education for homeless children and youth cluster		<u>1,000</u>
Total U.S. Department of Education		<u>8,823,382</u>
<u>U.S. Department of Health and Human Services</u>		
Passed-through the Mississippi Department of Education:		
Medical assistance program	93.778	34,394
Total U.S. Department of Health and Human Services		<u>34,394</u>
Total for All Federal Awards		<u>\$ 12,676,419</u>

HATTIESBURG PUBLIC SCHOOL DISTRICT

Supplemental Information

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2011

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.

HATTIESBURG PUBLIC SCHOOL DISTRICT

Supplemental Information

**Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
For the Year Ended June 30, 2011**

<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	\$ 34,760,655	26,403,060	1,345,262	2,293,873	4,718,460
Other	17,950,151	4,396,419	561,258	269,581	12,722,893
Total	\$ 52,710,806	30,799,479	1,906,520	2,563,454	17,441,353
Total number of students *	4,466				
Cost per student	\$ 11,802	6,896	427	574	3,905

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.

General Administration - includes expenditures for the following functions: Support Services - General Administration and Support Services - Business.

School Administration - includes expenditures for the following function: Support Services - School Administration.

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

* includes the number of students reported on the AIDA report submission for month 9, which is the final submission for the fiscal year

HATTIESBURG PUBLIC SCHOOL DISTRICT

(This page left blank intentionally)

OTHER INFORMATION

HATTIESBURG PUBLIC SCHOOL DISTRICT

(This page left blank intentionally)

HATTIESBURG PUBLIC SCHOOL DISTRICT

Other Information

Statement of Revenues, Expenditures and Changes in Fund Balances

**General Fund
Last Four Years
UNAUDITED**

	2011	2010*	2009*	2008*
Revenues:				
Local sources	\$ 16,453,694	15,934,629	15,302,777	14,951,565
Intermediate sources		400		
State sources	16,619,153	17,393,553	19,124,413	19,185,343
Federal sources	309,378	400,303	437,299	294,717
Total Revenues	33,382,225	33,728,885	34,864,489	34,431,625
Expenditures:				
Instruction	18,201,775	19,171,246	20,887,383	19,320,249
Support services	13,738,370	14,220,163	14,414,366	13,852,143
Noninstructional services	151,446	223,545	237,079	308,443
Sixteenth section			285,330	758,363
Debt service:				
Principal	124,513	118,980	113,695	108,646
Interest	25,774	31,307	36,592	41,641
Total Expenditures	32,241,878	33,765,241	35,974,445	34,389,485
Excess (Deficiency) of Revenues over (under) Expenditures	1,140,347	(36,356)	(1,109,956)	42,140
Other Financing Sources (Uses):				
Bonds and notes issued	550,000			
Insurance recovery			7,293	
Sale of transportation equipment			4,760	
Sale of other property			3,829	1,680
Other financing sources	490,072	670,909	588,386	139,986
Operating transfers out	(831,494)	(1,512,457)	(1,188,561)	(1,290,585)
Total Other Financing Sources (Uses)	208,578	(841,548)	(584,293)	(1,148,919)
Net Change in Fund Balances	1,348,925	(877,904)	(1,694,249)	(1,106,779)
Fund Balances:				
Beginning of period, as originally reported	5,410,449	6,297,462	7,965,174	9,086,433
Prior period adjustments	59,919			
Beginning of period, as restated	5,470,368	6,297,462	7,965,174	9,086,433
Increase (Decrease) in reserve for inventory End of Period	(4,825)	(9,109)	26,537	(14,480)
\$	6,814,468	5,410,449	6,297,462	7,965,174

*SOURCE - PRIOR YEAR AUDIT REPORTS

HATTIESBURG PUBLIC SCHOOL DISTRICT

Other Information

Statement of Revenues, Expenditures and Changes in Fund Balances

All Governmental Funds

Last Four Years

UNAUDITED

	2011	2010*	2009*	2008*
Revenues:				
Local sources	\$ 18,957,441	18,291,485	17,860,100	17,785,326
Intermediate sources		400		
State sources	18,489,709	18,955,536	21,148,681	20,594,449
Federal sources	12,215,474	12,051,886	9,321,275	9,217,809
Sixteenth section sources	173,114	162,209	53,893	198,682
Total Revenues	49,835,738	49,461,516	48,383,949	47,796,266
Expenditures:				
Instruction	25,283,850	25,898,797	26,049,864	24,159,617
Support services	18,472,178	19,683,452	18,441,986	18,128,859
Noninstructional services	3,084,999	3,103,684	3,090,616	3,397,643
Sixteenth section	36,246	24,312	40,055	20,197
Facilities acquisition and construction	2,199,271	833,276	658,611	906,858
Debt service:				
Principal	2,803,733	1,743,980	7,842,195	1,870,646
Interest	727,089	745,488	862,993	982,407
Other	103,440	3,917	4,070	5,437
Total Expenditures	52,710,806	52,036,906	56,990,390	49,471,664
Excess (Deficiency) of Revenues over (under) Expenditures	(2,875,068)	(2,575,390)	(8,606,441)	(1,675,398)
Other Financing Sources (Uses):				
Bonds and notes issued	4,550,000	3,000,000	5,933,963	
Insurance recovery			7,293	
Refunding bonds issued	6,355,000			
Payment to escrow agent	200,000			
Premiums on bonds and refunding bonds issued	72,762			
Payment to refunded bond escrow agent	(5,534,780)			
Payment to Qualified Zone Academy debt escrow agent	(200,000)			
Sale of transportation equipment			4,760	
Sale of other property			3,829	1,680
Operating transfers in	1,544,751	2,468,290	2,243,400	2,535,118
Operating transfers out	(1,544,751)	(2,468,290)	(2,243,400)	(2,535,118)
Other financing uses	(15)			
Total Other Financing Sources (Uses)	5,442,967	3,000,000	5,949,845	1,680
Net Change in Fund Balances	2,567,899	424,610	(2,656,596)	(1,673,718)
Fund Balances:				
Beginning of period, as originally reported	12,881,325	12,460,497	15,074,313	16,754,067
Prior period adjustments	68,816	(5,750)		
Beginning of period, as restated	<u>12,950,141</u>	<u>12,454,747</u>	<u>15,074,313</u>	<u>16,754,067</u>
Increase (Decrease) in reserve for inventory	(14,382)	1,968	42,780	(6,036)
End of Period	\$ 15,503,658	12,881,325	12,460,497	15,074,313

*SOURCE:- PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

HATTIESBURG PUBLIC SCHOOL DISTRICT

(This page left blank intentionally)

Suzanne E. Smith, CPA, PLLC
Certified Public Accountant
P. O. Box 7124 • Meridian, MS 39304

Accounting and Auditing Services
Email: sesmithcpa@msn.com

Telephone: 601-482-8040
Cell: 601-938-5717

Member MSCPA

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

To the School Board
Hattiesburg Public School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hattiesburg Public School District, as of and for the year ended June 30, 2011, which collectively comprise the Hattiesburg Public School District's basic financial statements and have issued our report thereon dated January 17, 2012. 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 Hattiesburg Public 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 Hattiesburg Public School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Hattiesburg Public School District's internal control over financial reporting.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. (Finding 2011-01 and Finding 2011-02) A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

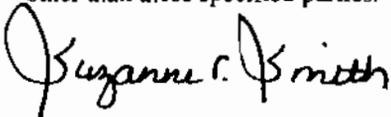
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hattiesburg Public 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



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

This report is intended solely for the information and use of management, City Council, others within the entity, 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.



Suzanne E. Smith, CPA

January 17, 2012



Suzanne E. Smith, CPA, PLLC
Certified Public Accountant
P. O. Box 7124 • Meridian, MS 39304

Accounting and Auditing Services
Email: sesmithcpa@msn.com

Telephone: 601-482-8040
Cell: 601-938-5717

Member MSCPA

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the School Board
Hattiesburg Public School District

Compliance

We have audited Hattiesburg Public School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Hattiesburg Public School District's major federal programs for the year ended June 30, 2011. Hattiesburg Public 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 Hattiesburg Public School District's management. Our responsibility is to express an opinion on Hattiesburg Public School District's compliance based on our audit.

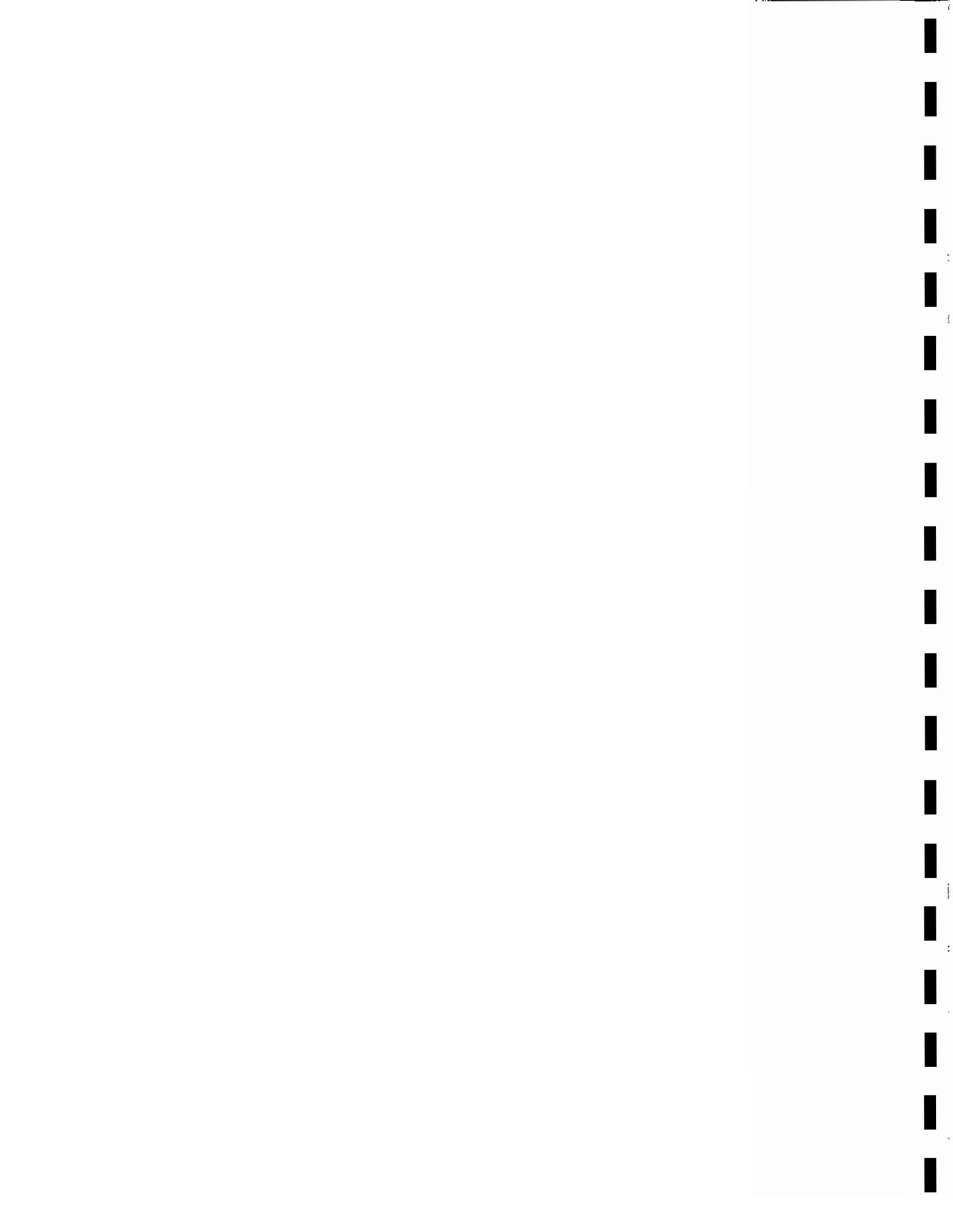
We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits 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 Hattiesburg Public 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 of Hattiesburg Public School District's compliance with those requirements.

In our opinion, Hattiesburg Public School District, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control over Compliance

Management of Hattiesburg Public School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Hattiesburg Public School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Hattiesburg Public 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 was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies,



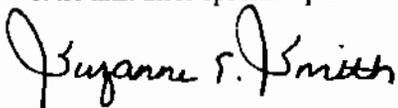
significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of questioned costs as Finding 2011-03, Finding 2011-04, Finding 2011-05, and Finding 2011-06 to be significant deficiencies.

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

This report is intended solely for the information and use of management, the School Board, others within the entity, 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.



Suzanne E. Smith, CPA

January 17, 2012



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

HATTIESBURG PUBLIC SCHOOL DISTRICT

(This page left blank intentionally)

Suzanne E. Smith, CPA, PLLC
Certified Public Accountant
P. O. Box 7124 • Meridian, MS 39304

Accounting and Auditing Services
Email: scsmithcpa@msn.com

Telephone: 601-482-8040
Cell: 601-938-5717

Member MSCPA

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

Superintendent and School Board
Hattiesburg Public School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hattiesburg Public School District as of and for the year ended June 30, 2011, which collectively comprise Hattiesburg Public School District's basic financial statements and have issued our report thereon dated January 17, 2012. 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 \$12,211 of classroom supply funds carried over from previous years.

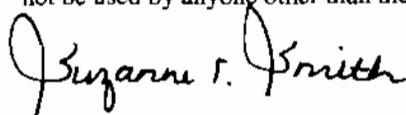
Section 37-9-18(3)(b), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure correct and appropriate coding at the function level. The audit must include a report showing the correct and appropriate functional level expenditure codes in expenditures by the School District."

The results of our procedures performed to test compliance with the requirements of Section 37-9-18(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 did not disclose any instances of noncompliance with other state laws and regulations.

This report is intended solely for the information and use of the School Board and management, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Suzanne E. Smith, CPA

January 17, 2012



SCHEDULE OF FINDINGS AND QUESTIONED COSTS

HATTIESBURG PUBLIC SCHOOL DISTRICT

(This page left blank intentionally)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|--|-------------|
| 1. | Type of auditor's report issued: | Unqualified |
| 2. | Internal control over financial reporting: | |
| | a. Material weakness(es) identified? (Yes/No) | No |
| | b. Significant deficiency(ies) identified? (Yes/None reported) | Yes |
| 3. | Noncompliance material to financial statements noted? (Yes/No) | No |

Federal Awards:

- | | | |
|----|---|-------------|
| 4. | Internal control over major programs: | |
| | a. Material weakness(es) identified? (Yes/No) | No |
| | b. Significant deficiency(ies) identified? (Yes/None reported) | Yes |
| 5. | Type of auditor's report issued on compliance for major programs: | Unqualified |
| 6. | Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? (Yes/No) | Yes |
| 7. | Identification of major programs: | |

CFDA Number

Award

Child Nutrition Cluster:

10.553	School breakfast program
10.555	National school lunch program
10.559	Summer food service program for children

Title I Cluster:

84.010	Title I grants to local educational agencies
84.389	Title I grants to local educational agencies, recovery act

Special Education Cluster:

84.027	Special education – grants to states
84.173	Special education – preschool grants
84.391	Special education – grants to states, recovery act
84.392	Special education – preschool grants, recovery act

State Fiscal Stabilization Fund (SFSF) Cluster:

84.394	State Fiscal Stabilization Fund – Education state grants, recovery act
--------	--

84.367	Improving teacher quality – state grants
--------	--

20.205	Highway planning and construction
--------	-----------------------------------

- | | |
|---|-----------|
| 8. Dollar threshold used to distinguish between type A and type B programs: | \$380,293 |
| 9. Auditee qualified as low-risk auditee? (yes/no) | No |

Section II: Financial Statement Findings

Significant Deficiencies not Considered to be Material Weaknesses

Finding 2011-01 – Control Deficiency - Recording of Federal Revenues – Donated Commodity Amounts.

Finding: The child nutrition department failed to provide the business manager with the correct amounts received in the form of federal donated food commodities for the year ended June 30, 2011. The child nutrition department does not consistently track shipments of commodities requested to centrally verify the arrival of those items. This constitutes a control deficiency that impacts federal revenues recorded in the financial statements and on the Schedule of Expenditures of Federal Awards. The amount of the understated was approximately \$40,000. An audit adjustment was proposed and accepted to correctly state the federal revenues and related expenditures for the year.

Recommendation: We recommend that the child nutrition department develop a system for tracking commodities ordered to verify that all items are received and signed for by school personnel. The amounts received by the district should be cross-referenced to the reporting forms available from the Mississippi Department of Education and accumulated for business department review.

Finding 2011-02 – Control Deficiency – Allocation Method for Distributing Costs for Workers’ Compensation Insurance Benefit.

Finding: The School District’s method for distributing the costs of workers’ compensation insurance benefit expenditures to the various funds resulted in over-allocations of \$144,065 for the two year period ending June 30, 2011. The General Fund was the primary fund affected and showed higher payroll benefit expenditures in both years than was necessary to service the payments required for the insurance coverage. Amounts of over-allocations in other funds were insignificant. An audit adjustment was proposed and accepted to reduce current year expenditures and adjust beginning fund balance for the prior year over-allocations, thereby eliminating the misstatement.

Recommendation: We recommend that the district develop a system to distribute costs for workers’ compensation insurance benefits that will correctly match insurance costs to funds.

Section III: Federal Award Findings and Questioned Costs

Significant Deficiencies not Considered to be Material Weaknesses nor Material Noncompliance

Finding 2011-03 – Control Deficiency - Recording of Federal Revenues – Donated Commodity Amounts.

Finding: The child nutrition department failed to provide the business manager with the correct amounts received in the form of federal donated food commodities for the year ended June 30, 2011. The child nutrition department does not consistently track shipments of commodities requested to centrally verify the arrival of those items. This constitutes a control deficiency that impacts federal revenues recorded in the financial statements and on the Schedule of Expenditures of Federal Awards. The amount of the understated was approximately \$40,000. An audit adjustment was proposed and accepted to correctly state the federal revenues and related expenditures for the year.

Recommendation: We recommend that the child nutrition department develop a system for tracking commodities ordered to verify that all items are received and signed for by school personnel. The amounts received by the district should be cross-referenced to the reporting forms available from the Mississippi Department of Education and accumulated for business department review.

Finding 2011-04 – Control Deficiency – Child nutrition cluster – Eligibility

Finding: Any child enrolled in a participating school who meets eligibility criteria may receive meals under the Child nutrition cluster of programs. Children belonging to households meeting nationwide income eligibility requirements may receive meals at no charge or at reduced price. Children who have been determined ineligible for free or reduced price school meals pay the full price, set by the School District, for their meals. The School District is charged with developing a process to identify eligible participants in their program.

Out of a sample of 30 (thirty) household (family) applications, we noted five instances of applications containing inconsistent or missing data or incorrect eligibility determinations. In several instances, the staff had to provide additional data or make assumptions as to how the eligibility determinations were made. Administration has stated that additional training and support for these workers may be needed. The incorrect determination of eligibility impacts the meals claimed for federal reimbursement.

Recommendation: We recommend that appropriate training and support be given to all personnel reviewing and inputting household (family) applications into the software during the verification process. Any additional information obtained for purposes of clarifying applications should be appropriately documented and maintained in the files for review during audit.

Finding 2011-05 – Control Deficiency – Child nutrition cluster – Program Income

Finding: Program income includes income received from reduced price and paying students and adult meal sales and special function income. Such program revenues must be used to support the child nutrition program. During a comparison of deposited and recorded program income sales, we noted that the projected sales for the number of paid meals reported on the monthly claims for reimbursement did not materialize in the form of bank deposits and credits to the general ledger. Projected sales exceeded deposited and recorded sales by \$15,744. The reason for this difference is not known. Such differences may be a failure to capture payments when student or adult paid meals are entered into the system, an over-reporting of paid meals on the monthly claims forms, or the failure to correctly record meals sales each month.

Recommendation: We recommend that the district refine the system for tracking and recording meal sales in the child nutrition program. Software reports are available in the system to assist with this effort; however, program administrators are unfamiliar with the capabilities of the system.

Finding 2011-06 – Control Deficiency – Child nutrition cluster – Reporting

Finding: Program administration is unable to rely on software-generated reports for meal counts to be reported for reimbursement to the U. S. Department of Education. The software being used generates meal count reports by school location and in total. The different reports often show conflicting amounts for meal counts. The child nutrition secretary stated that she was instructed by the software vendor to select the higher number. The program administration is not adequately trained to understand the software being used to administer the program and was unable to answer basic questions concerning the reports or conflicting amounts. It is essential that the district have a good understanding of the software used to track eligible students and meal counts. This will guarantee that the district is being reimbursed for all eligible meals.

Recommendation: We recommend that the district obtain the necessary software training for those persons responsible for preparing monthly claims for reimbursement.

HATTIESBURG PUBLIC SCHOOL DISTRICT

(This page left blank intentionally)

AUDITEE'S CORRECTIVE ACTION PLAN

HATTIESBURG PUBLIC SCHOOL DISTRICT

(This page left blank intentionally)



Hattiesburg Public School District

James Q. Bacchus, Superintendent

Financial & Compliance Audit Division

As required by Section 315(c) of OMB Circular A-133, the Hattiesburg Public School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2011:

Finding	Corrective Action Plan Details
2011-01	<p>a. Name(s) of Contact Person(s) Responsible for Corrective Action: Stephanie Hoze, Child Nutrition Director.</p> <p>b. Corrective Action Planned: This finding was reviewed in detail and discussed with each manager and bookkeeper of the Child Nutrition Staff. We have instituted a two party cross reference monitoring system by bookkeepers for tracking each commodity order to verify that all items are received and signed for by specifically designated school personnel. The amounts received will be cross referenced to the MDE reporting forms and transmitted to the business department for review and reconciliation.</p> <p>c. Anticipated Implementation Date: Immediately.</p>
2011-02	<p>a. Name(s) of Contact Person(s) Responsible for Corrective Action Frank Aderholdt, Business Manager</p> <p>b. Corrective Action Planned: The district will adjust rates charged for workers' compensation through the payroll system to match premium costs as closely as possible.</p> <p>c. Anticipated Completion Date: Beginning January 2012 and revised as needed on a monthly basis thereafter.</p>
2011-03	<p>a. Name(s) of Contact Person(s) Responsible for Corrective Action: Stephanie Hoze, Child Nutrition Director.</p> <p>b. Corrective Action Planned: This finding was reviewed in detail and discussed with each manager and bookkeeper of the Child Nutrition Staff. We have instituted a two party cross reference monitoring system by bookkeepers for tracking each commodity order to verify that all items are received and signed for by specifically designated school personnel. The amount received will be cross referenced to the MDE reporting forms and transmitted to the business department for review and reconciliation.</p> <p>c. Anticipated Implementation Date: Immediately.</p>

301 Marie Street • Hattiesburg, MS 39401 • P.O. Box 1569 • Hattiesburg, MS 39403-1569
Phone (601) 582-5078 • Fax (601) 583-7339

"Today's Learners, Tomorrow's Leaders!"

- 2011-04
- a. Name(s) of Contact Person(s) Responsible for Corrective Action:
Stephanie Hoze, Child Nutrition Director.
 - b. Corrective Action Planned:
This finding has been reviewed and discussed with Child Nutrition Staff. We will conduct an in-house review of all applications for accuracy and proper eligibility determinations along with a review of proper documentation. A summary report will be prepared. We will schedule on-site training with our software provider for 100% of personnel reviewing/inputting household information into the software. Any additional information obtained for purposes of clarifying applications will be appropriately documented and maintained in the files for review during audit.
 - c. Anticipated Implementation Date:
Immediately.
- 2011-05
- a. Name(s) of Contact Person(s) Responsible for Corrective Action:
Stephanie Hoze, Child Nutrition Director.
 - b. Corrective Action Planned:
This finding has been discussed with Child Nutrition bookkeepers, managers and cashiers at each school. A more detailed system of tracking and recording meal sales is being developed for cashiers. More immediately, deposits will be reconciled with recorded sales on a daily basis and deficiencies will be tracked accordingly on a daily basis. Each cashier and administrative staff will receive onsite training from our software company to understand our software reports.
 - c. Anticipated Implementation Date:
Immediately.
- 2011-06
- a. Name(s) of Contact Person(s) Responsible for Corrective Action:
Stephanie Hoze, Child Nutrition Director.
 - b. Corrective Action Planned:
Upgrades to our software program will occur and additional training will be provided for personnel responsible for preparing monthly claims for reimbursement.
 - c. Anticipated Implementation Date:
Beginning of 2012-2013 school year.

SUMMARY OF PRIOR YEAR FINDINGS

HATTIESBURG PUBLIC SCHOOL DISTRICT

(This page left blank intentionally)



SUMMARY OF PRIOR YEAR FINDINGS
For the Year Ended June 30, 2011

Section II: Financial Statement Findings

Significant Deficiency Not Considered to be a Material Weakness -

Finding 2010-01: Control Deficiency in Cash Receipts for Student Activity Funds

Current Status: Control deficiency corrected

Section III: Federal Award Findings and Questioned Costs

Significant Deficiencies Not Considered to be Material Weaknesses -

Finding 2010-02: Child nutrition cluster – Eligibility

Current Status: Current year finding at Finding 2011-04

Finding 2010-03: Child nutrition cluster – Program Income

Current Status: Current year finding at Finding 2011-05

Finding 2010-04: Child nutrition cluster – Special Tests and Procedures – Verification

Current Status: Control deficiency corrected.

