



STATE OF MISSISSIPPI  
OFFICE OF THE STATE AUDITOR

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HAZLEHURST CITY SCHOOL DISTRICT

Audited Financial Statements  
For the Year Ended June 30, 2003



HAZLEHURST CITY SCHOOL DISTRICT

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HAZLEHURST CITY SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

HAZLEHURST CITY SCHOOL DISTRICT

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## State of Mississippi

OFFICE OF THE STATE AUDITOR  
PHIL BRYANT  
AUDITOR

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

Superintendent and School Board  
Hazlehurst City School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Hazlehurst City School District as of and for the year ended June 30, 2003, which collectively comprise the Hazlehurst City School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Hazlehurst City School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Hazlehurst City School District, as of June 30, 2003, 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.

As described in Note 2, during the year ended June 30, 2003, the district implemented a new financial reporting model as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*; GASB Statement No. 38, *Certain Financial Statement Note Disclosures*; and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

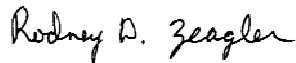
In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2004, on our consideration of the Hazlehurst City School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 7 through 13 and the Budgetary Comparison Schedule and corresponding notes on pages 43 through 46 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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



PHIL BRYANT  
State Auditor



RODNEY D. ZEAGLER, CPA  
Director, Financial and Compliance Audit Division

August 24, 2004



HAZLEHURST CITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

HAZLEHURST CITY SCHOOL DISTRICT

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Hazlehurst City School District  
Management's Discussion and Analysis  
For the Year Ended June 30, 2003

The discussion and analysis of Hazlehurst City School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2003. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

This discussion and analysis is a new element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999. Certain comparative information between the current year and the prior year is required to be presented. However, since this is the first year of implementation of the new reporting model contained in GASB Statement No. 34, the Statement permits the omission of prior year data in the year of implementation. The School District has elected not to present comparative data.

## **FINANCIAL HIGHLIGHTS**

- Total net assets increased \$15,868, which represents 1% increase from fiscal year 2002.
- General revenues account for \$7,815,759 in revenue, or 75% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$2,621,982, or 25% of total revenues.
- The District had \$10,403,420 in expenses; only \$2,621,982 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$7,815,759 were adequate to provide for these programs.
- Among major funds, the General Fund had \$7,617,248 in revenues and \$7,353,997 in expenditures. The General Fund's fund balance increased \$177,576 over the prior year. This increase is a result of the increased amount of revenue from state sources received due to full funding for Mississippi Adequate Education.
- Capital assets, net of accumulated depreciation, decreased by \$169,974. This decrease is due primarily to the increase in accumulated depreciation for capital assets.
- Long-term debt decreased by \$604,939. This decrease is due primarily to principal payments made during the current fiscal year on existing long-term debt. Also, sixteenth section principal loans were reclassified from general long-term debt to advances.

Hazlehurst City School District  
Management's Discussion and Analysis  
For the Year Ended June 30, 2003

## OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

The government-wide financial statements can be found within this report.

**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.

Hazlehurst City School District  
Management's Discussion and Analysis  
For the Year Ended June 30, 2003

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

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

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

The basic governmental fund financial statements can be found within this report.

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

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

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

Hazlehurst City School District  
 Management's Discussion and Analysis  
 For the Year Ended June 30, 2003

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

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found within this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net assets.** Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$1,693,737 as of June 30, 2003.

The district's net assets are comprised of 1) net assets invested in capital assets, net of related debt, 2) restricted net assets and 3) unrestricted net assets. \$782,420 of the District's net assets (46%) reflects its investment in capital assets (e.g., land, buildings, building improvements, mobile equipment and furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending. \$691,932 of the District's net assets (41%) reflects its restricted net assets. A portion of the restricted net assets is expendable for school based activities, debt service, forestry improvements and unemployment benefits. The remaining portion of the restricted net assets is nonexpendable for 16<sup>th</sup> section investment purposes and scholarships. \$219,385 of the District's net assets (13%) reflects its unrestricted net assets.

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

The following table presents a summary of the District's net assets for the fiscal year ended June 30, 2003.

|                            | <u>Amount</u>    |
|----------------------------|------------------|
| Current assets             | \$ 1,728,589     |
| Capital assets, net        | <u>3,136,389</u> |
| <b>Total assets</b>        | <u>4,864,978</u> |
| <br>                       |                  |
| Current liabilities        | 720,670          |
| Long-term debt outstanding | <u>2,450,571</u> |
| <b>Total liabilities</b>   | <u>3,171,241</u> |

Hazlehurst City School District  
Management's Discussion and Analysis  
For the Year Ended June 30, 2003

|   |                            |
|---|----------------------------|
| <b>Net assets:</b>                              |                            |
| Invested in capital assets, net of related debt | 782,420                    |
| Restricted                                      | 691,932                    |
| Unrestricted                                    | <u>219,385</u>             |
| <b>Total net assets</b>                         | <b>\$ <u>1,693,737</u></b> |

**Changes in net assets.** The District's total revenues for the fiscal year ended June 30, 2003 were \$10,437,741. The total cost of all programs and services was \$10,403,420. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2003.

|  | <u>Amount</u>            |
|--|--------------------------|
| <b>Revenues:</b>                                     |                          |
| Program revenues                                     | \$ 2,621,982             |
| General revenues                                     | <u>7,815,759</u>         |
| <b>Total revenues</b>                                | <b><u>10,437,741</u></b> |
| <b>Expenses:</b>                                     |                          |
| Instruction  | 6,237,961                |
| Support services                                     | 3,051,428                |
| Non-instructional                                    | 946,132                  |
| Sixteenth section                                    | 46,402                   |
| Interest and other expenses on long-term liabilities | <u>121,497</u>           |
| <b>Total expenses</b>                                | <b><u>10,403,420</u></b> |
| <b>Increase in net assets</b>                        | <b>\$ <u>34,321</u></b>  |

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

|  | Total<br><u>Expenses</u>    | Net (Expense)<br><u>Revenue</u> |
|--|-----------------------------|---------------------------------|
| Instruction                                | \$ 6,237,961                | \$ (4,933,394)                  |
| Support services                           | 3,051,428                   | (2,614,781)                     |
| Non-instructional                          | 946,132                     | (65,364)                        |
| Sixteenth section                          | 46,402                      | (46,402)                        |
| Interest/expenses on long-term liabilities | <u>121,497</u>              | <u>(121,497)</u>                |
| <b>Total expenses</b>                      | <b>\$ <u>10,403,420</u></b> | <b>\$ <u>(7,781,438)</u></b>    |

Hazlehurst City School District  
Management's Discussion and Analysis  
For the Year Ended June 30, 2003

- Net cost of governmental activities (\$7,781,438) was financed by general revenue, which is made up of primarily property taxes (\$2,161,391) and state revenue (\$5,539,954).

## **FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$1,052,875, a decrease of \$306,257 due primarily to the decrease in fund balance of the MAEP Note Fund. \$315,987 or 30%, of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$736,888, or 70%, is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$177,576, a result of the increased amount of revenue from state sources received due to full funding for Mississippi Adequate Education. The fund balance of the Sixteenth Section Interest Fund showed a decrease of \$150,571 due primarily to the transfer of sixteenth section interest funds to the General Fund. The fund balance of the Other Governmental Funds showed a decrease of \$351,810, due primarily to the use of funds in the MAEP Note Fund.

## **BUDGETARY HIGHLIGHTS**

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

- Budget amounts for revenue from state sources were increased to full funding for Mississippi Adequate Education. The original budgeted amounts underestimated for potential cuts by the Mississippi legislature. This was done upon suggestion of the Mississippi Department of Education.
- Budget amounts for other financing sources and uses were increased in the General Fund and Sixteenth Section Interest Fund, respectively, to account for the increase in transfers of sixteenth section interest funds to the General Fund.



Hazlehurst City School District  
Management's Discussion and Analysis  
For the Year Ended June 30, 2003

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

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of June 30, 2003, the District's total capital assets were \$6,355,523, including land, buildings, building improvements, mobile equipment and furniture and equipment. This amount represents an increase of \$11,749 from the previous year. Total accumulated depreciation as of June 30, 2003 was \$3,219,134 and total depreciation expense for the year was \$181,723, resulting in total net assets of \$3,136,389.

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

**Debt Administration.** At June 30, 2003, the District had \$2,450,571 in general and limited obligation bonds and other long-term debt outstanding, of which \$554,344 is due within one year. During the fiscal year, the district made principal payments in the amount of \$471,999 on existing long-term debt.

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

## **CURRENT ISSUES**

The Hazlehurst City School District is financially stable. The District is proud of its community support of the public schools.

The District has committed itself to financial excellence for many years. The millage has not increased or decreased significantly over the past several years. The District's system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

Latest enrollment figures indicate that student enrollment in the District has not increased or decreased significantly over the past several years.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

If you have questions about this report, contact the Superintendent's Office of the Hazlehurst City School District, 119 E. Frost Street, Hazlehurst, MS 39083.

HAZLEHURST CITY SCHOOL DISTRICT

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HAZLEHURST CITY SCHOOL DISTRICT

FINANCIAL STATEMENTS

HAZLEHURST CITY SCHOOL DISTRICT

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HAZLEHURST CITY SCHOOL DISTRICT  
Statement of Net Assets  
June 30, 2003

Exhibit A

|   | <u>Governmental<br/>Activities</u> |
|---|------------------------------------|
| <b>Assets</b>                                     |                                    |
| Cash and cash equivalents                         | \$ 1,385,381                       |
| Due from other governments                        | 233,807                            |
| Inventories and prepaid items                     | 10,887                             |
| Restricted assets                                 | 98,514                             |
| Capital assets, net                               | <u>3,136,389</u>                   |
| <br>Total Assets                                  | <br><u>4,864,978</u>               |
| <b>Liabilities</b>                                |                                    |
| Accounts payable and accrued liabilities          | 194,537                            |
| Due to other governments                          | 472,655                            |
| Deferred revenue                                  | 8,522                              |
| Interest payable on long-term liabilities         | 44,956                             |
| Long-term liabilities, due within one year        |                                    |
| Capital related liabilities                       | 551,446                            |
| Non-capital related liabilities                   | 2,898                              |
| Long-term liabilities, due beyond one year        |                                    |
| Capital related liabilities                       | 1,802,523                          |
| Non-capital related liabilities                   | <u>93,704</u>                      |
| <br>Total Liabilities                             | <br><u>3,171,241</u>               |
| <b>Net Assets</b>                                 |                                    |
| Investment in capital assets, net of related debt | 782,420                            |
| Restricted net assets:                            |                                    |
| Expendable:                                       |                                    |
| School-based activities                           | 423,473                            |
| Debt service                                      | 73,667                             |
| Forestry improvements                             | 41,570                             |
| Unemployment benefits                             | 36,000                             |
| Non-expendable:                                   |                                    |
| Sixteenth section                                 | 84,862                             |
| Other   | 32,360                             |
| Unrestricted                                      | <u>219,385</u>                     |
| <br>Total Net Assets                              | <br>\$ <u><u>1,693,737</u></u>     |

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

HAZLEHURST CITY SCHOOL DISTRICT  
Statement of Activities  
For the Year Ended June 30, 2003

Exhibit B

| Functions/Programs                   | Expenses             | Program Revenues     |                                    |                                  | Net (Expense)                     |
|--------------------------------------|----------------------|----------------------|------------------------------------|----------------------------------|-----------------------------------|
|                                      |                      | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Revenue and Changes in Net Assets |
|                                      |                      |                      |                                    |                                  | Governmental Activities           |
| Governmental Activities:             |                      |                      |                                    |                                  |                                   |
| Instruction                          | \$ 6,237,961         | 411,996              | 892,571                            |                                  | (4,933,394)                       |
| Support services                     | 3,051,428            |                      | 436,647                            |                                  | (2,614,781)                       |
| Non-instructional                    | 946,132              | 92,376               | 788,392                            |                                  | (65,364)                          |
| Sixteenth section                    | 46,402               |                      |                                    |                                  | (46,402)                          |
| Interest on long-term liabilities    | 121,497              |                      |                                    |                                  | (121,497)                         |
| <b>Total Governmental Activities</b> | <b>\$ 10,403,420</b> | <b>504,372</b>       | <b>2,117,610</b>                   | <b>0</b>                         | <b>(7,781,438)</b>                |

General Revenues:

Taxes:

|                        |           |
|------------------------|-----------|
| General purpose levies | 1,882,255 |
| Debt purpose levies    | 279,136   |

Unrestricted grants and contributions:

|                                  |                  |
|----------------------------------|------------------|
| State                            | 5,539,954        |
| Federal                          | 5,951            |
| Unrestricted investment earnings | 14,622           |
| Sixteenth section sources        | 93,841           |
| <b>Total General Revenues</b>    | <b>7,815,759</b> |

Change in Net Assets 34,321

Net Assets - Beginning 1,677,869  
Prior period adjustments (18,453)

Net Assets - Beginning - Restated 1,659,416

Net Assets - Ending \$ 1,693,737

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

HAZLEHURST CITY SCHOOL DISTRICT  
 Balance Sheet - Governmental Funds  
 June 30, 2003

Exhibit C

|  | Major Funds         |                      |                                 |                          |                          |
|--|---------------------|----------------------|---------------------------------|--------------------------|--------------------------|
|  | General Fund        | Child Nutrition Fund | Sixteenth Section Interest Fund | Other Governmental Funds | Total Governmental Funds |
| <b>ASSETS</b>                              |                     |                      |                                 |                          |                          |
| Cash and cash equivalents                  | \$ 864,250          | 111,776              | 50,272                          | 457,597                  | 1,483,895                |
| Due from other governments                 | 133,103             |                      |                                 | 100,704                  | 233,807                  |
| Due from other funds                       | 163,227             | 12,424               | 302,538                         | 52,254                   | 530,443                  |
| Advance to other funds                     |                     |                      |                                 | 18,708                   | 18,708                   |
| Inventories and prepaid items              |                     | 10,887               |                                 |                          | 10,887                   |
| <b>Total Assets</b>                        | <b>\$ 1,160,580</b> | <b>135,087</b>       | <b>352,810</b>                  | <b>629,263</b>           | <b>2,277,740</b>         |
| <b>LIABILITIES AND FUND BALANCES</b>       |                     |                      |                                 |                          |                          |
| <b>Liabilities:</b>                        |                     |                      |                                 |                          |                          |
| Accounts payable and accrued liabilities   | \$ 108,316          | 15,905               | 42,884                          | 27,432                   | 194,537                  |
| Due to other funds                         | 717,569             | 101,284              |                                 | 184,245                  | 1,003,098                |
| Advances from other funds                  | 18,708              |                      |                                 |                          | 18,708                   |
| Deferred revenue                           |                     |                      |                                 | 8,522                    | 8,522                    |
| <b>Total Liabilities</b>                   | <b>844,593</b>      | <b>117,189</b>       | <b>42,884</b>                   | <b>220,199</b>           | <b>1,224,865</b>         |
| <b>Fund Balances:</b>                      |                     |                      |                                 |                          |                          |
| <b>Reserved for:</b>                       |                     |                      |                                 |                          |                          |
| Advances                                   |                     |                      |                                 | 18,708                   | 18,708                   |
| Inventory                                  |                     | 10,887               |                                 |                          | 10,887                   |
| <b>Unreserved:</b>                         |                     |                      |                                 |                          |                          |
| <b>Undesignated, reported in:</b>          |                     |                      |                                 |                          |                          |
| General Fund                               | 315,987             |                      |                                 |                          | 315,987                  |
| Special Revenue Funds                      |                     | 7,011                | 309,926                         | 173,219                  | 490,156                  |
| Debt Service Funds                         |                     |                      |                                 | 118,623                  | 118,623                  |
| Permanent Funds                            |                     |                      |                                 | 98,514                   | 98,514                   |
| <b>Total Fund Balances</b>                 | <b>315,987</b>      | <b>17,898</b>        | <b>309,926</b>                  | <b>409,064</b>           | <b>1,052,875</b>         |
| <b>Total Liabilities and Fund Balances</b> | <b>\$ 1,160,580</b> | <b>135,087</b>       | <b>352,810</b>                  | <b>629,263</b>           | <b>2,277,740</b>         |

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

HAZLEHURST CITY SCHOOL DISTRICT  
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets  
June 30, 2003

Exhibit C-1

|  | <u>Amount</u>       |
|--|---------------------|
| Total Fund Balance - Governmental Funds  | \$ 1,052,875        |
| Amounts reported for governmental activities in the Statement of Net Assets are different because:   |                     |
| 1. Capital assets are used in governmental activities and are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$3,219,134. | 3,136,389           |
| 2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.  | (2,450,571)         |
| 3. Accrued interest payable is not due and payable in the current period and therefore are not reported in the funds.  | <u>(44,956)</u>     |
| Total Net Assets - Governmental Activities   | <u>\$ 1,693,737</u> |

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



HAZLEHURST CITY SCHOOL DISTRICT  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2003

Exhibit D

|  | Major Funds       |                         |                                       |                                | Total<br>Governmental<br>Funds |
|--|-------------------|-------------------------|---------------------------------------|--------------------------------|--------------------------------|
|  | General<br>Fund   | Child Nutrition<br>Fund | Sixteenth<br>Section Interest<br>Fund | Other<br>Governmental<br>Funds |                                |
| <b>Revenues:</b>   |                   |                         |                                       |                                |                                |
| Local sources  | \$ 2,061,675      | 169,506                 |                                       | 401,211                        | 2,632,392                      |
| State sources  | 5,543,322         |                         |                                       | 231,959                        | 5,775,281                      |
| Federal sources  | 12,251            | 844,411                 |                                       | 1,077,397                      | 1,934,059                      |
| Sixteenth section sources                                    |                   |                         | 94,595                                | 1,414                          | 96,009                         |
| <b>Total Revenues</b>  | <b>7,617,248</b>  | <b>1,013,917</b>        | <b>94,595</b>                         | <b>1,711,981</b>               | <b>10,437,741</b>              |
| <b>Expenditures:</b>   |                   |                         |                                       |                                |                                |
| Instruction  | 4,850,361         |                         |                                       | 1,318,615                      | 6,168,976                      |
| Support services   | 2,502,779         | 130,589                 |                                       | 348,148                        | 2,981,516                      |
| Noninstructional services                                    |                   | 885,774                 |                                       | 41,568                         | 927,342                        |
| Sixteenth section  |                   |                         | 13,479                                | 32,923                         | 46,402                         |
| Debt service:  |                   |                         |                                       |                                |                                |
| Principal  |                   |                         |                                       | 471,999                        | 471,999                        |
| Interest   | 857               |                         |                                       | 129,220                        | 130,077                        |
| <b>Total Expenditures</b>                                    | <b>7,353,997</b>  | <b>1,016,363</b>        | <b>13,479</b>                         | <b>2,342,473</b>               | <b>10,726,312</b>              |
| <b>Excess (Deficiency) of Revenues<br/>over Expenditures</b> | <b>263,251</b>    | <b>(2,446)</b>          | <b>81,116</b>                         | <b>(630,492)</b>               | <b>(288,571)</b>               |
| <b>Other Financing Sources (Uses):</b>                       |                   |                         |                                       |                                |                                |
| Operating transfers in                                       | 249,163           | 54,174                  |                                       | 391,840                        | 695,177                        |
| Operating transfers out                                      | (362,376)         | (30,000)                | (231,687)                             | (71,114)                       | (695,177)                      |
| <b>Total Other Financing Sources (Uses)</b>                  | <b>(113,213)</b>  | <b>24,174</b>           | <b>(231,687)</b>                      | <b>320,726</b>                 | <b>0</b>                       |
| <b>Net Change in Fund Balances</b>                           | <b>150,038</b>    | <b>21,728</b>           | <b>(150,571)</b>                      | <b>(309,766)</b>               | <b>(288,571)</b>               |
| <b>Fund Balances:</b>  |                   |                         |                                       |                                |                                |
| July 1, 2002   | 138,411           | (650)                   | 460,497                               | 760,874                        | 1,359,132                      |
| Prior period adjustments                                     | 27,538            | (3,947)                 |                                       | (42,044)                       | (18,453)                       |
| July 1, 2002, as restated                                    | 165,949           | (4,597)                 | 460,497                               | 718,830                        | 1,340,679                      |
| <b>Increase in reserve for inventory</b>                     | <b>0</b>          | <b>767</b>              | <b>0</b>                              | <b>0</b>                       | <b>767</b>                     |
| <b>June 30, 2003</b>   | <b>\$ 315,987</b> | <b>17,898</b>           | <b>309,926</b>                        | <b>409,064</b>                 | <b>1,052,875</b>               |

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

HAZLEHURST CITY SCHOOL DISTRICT  
 Reconciliation of the Governmental Funds Statement of Revenues,  
 Expenditures and Changes in Fund Balances to the Statement of Activities  
 For the Year Ended June 30, 2003

Exhibit D-1

|  | <u>Amount</u>           |
|--|-------------------------|
| Net Change in Fund Balances - Governmental Funds   | \$ (288,571)            |
| Amounts reported for governmental activities in the Statement of Net Assets are different because:   |                         |
| 1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital asset purchases amounted to \$11,749, and the depreciation expense amounted to \$181,723. | (169,974)               |
| 2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Activities.  | 471,999                 |
| 3. Governmental funds recognize interest on long-term debt when it becomes due, however, the Statement of Activities recognizes interest as it accrues regardless of when it becomes due.  | 8,580                   |
| 4. Increase in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are decreased in the Statement of Activities.   | 767                     |
| 5. Expenses in the Statement of Activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds:   |                         |
| Compensated absences   | <u>11,520</u>           |
| Change in Net Assets of Governmental Activities  | \$ <u><u>34,321</u></u> |

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

HAZLEHURST CITY SCHOOL DISTRICT  
Statement of Fiduciary Net Assets  
June 30, 2003

Exhibit E

|  |    | Agency<br>Funds             |
|--|----|-----------------------------|
| Assets                                   |    | <u>                    </u> |
| Cash and cash equivalents                | \$ | 4,185                       |
| Due from other funds                     |    | <u>472,970</u>              |
| Total Assets                             | \$ | <u><u>477,155</u></u>       |
| Liabilities                              |    |                             |
| Accounts payable and accrued liabilities | \$ | 476,840                     |
| Due to other funds                       |    | <u>315</u>                  |
| Total Liabilities                        | \$ | <u><u>477,155</u></u>       |

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

## HAZLEHURST CITY SCHOOL DISTRICT

### Notes to Financial Statements For the Year Ended June 30, 2003

#### (1) Summary of Significant Accounting Policies.

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

##### A. Financial Reporting Entity.

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

##### B. Basis of Presentation.

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

##### *Government-wide Financial Statements:*

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

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

##### *Fund Financial Statements:*

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

## HAZLEHURST CITY SCHOOL DISTRICT

### Notes to Financial Statements For the Year Ended June 30, 2003

#### C. Measurement Focus and Basis of Accounting.

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

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

The school district reports the following major governmental funds:

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

**Child Nutrition Fund** - This fund accounts for the financial resources received from the national school lunch and school breakfast program and the resources received from the daily sales of food to students and adults. This fund also accounts for the expenditures related to the purchase, preparation and dispensing of food to students and adults.

**Sixteenth Section Interest Fund** - This fund accounts for specific financial resources derived from the use of sixteenth section lands held in trust by the school district and the expenditures concerned with maintaining and improving sixteenth section lands.

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

Additionally, the school district reports the following fund types:

#### GOVERNMENTAL FUNDS

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

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

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

## HAZLEHURST CITY SCHOOL DISTRICT

### Notes to Financial Statements For the Year Ended June 30, 2003

#### FIDUCIARY FUNDS

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

D. Account Classifications.

The account classifications used in the financial statements conform to the classifications prescribed in the *Financial Accounting Manual for Mississippi Public School Districts* issued by the Office of the State Auditor. The classifications in that manual are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 1990* issued by the U.S. Department of Education.

E. Encumbrances.

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

F. Cash and Cash Equivalents.

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

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

G. Investments.

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

For accounting purposes, certificates of deposit are classified as investments if they have a maturity greater than 12 months when acquired.

H. Inventories and Prepaid Items.

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

The costs of 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.

HAZLEHURST CITY SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2003

I. Capital Assets.

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

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are reported in the government-wide statements. Depreciation is calculated on the straight-line basis for all assets, except land. The following schedule details those thresholds.

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

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

J. Long-term Liabilities.

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

K. Interfund Transactions and Balances.

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

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

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

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

## HAZLEHURST CITY SCHOOL DISTRICT

### Notes to Financial Statements For the Year Ended June 30, 2003

#### L. Equity Classifications.

##### *Government-wide Financial Statements:*

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

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

##### *Fund Financial Statements:*

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

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

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

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

#### M. Property Taxes.

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

#### N. Mississippi Adequate Education Program Revenues.

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



## HAZLEHURST CITY SCHOOL DISTRICT

### Notes to Financial Statements For the Year Ended June 30, 2003

#### O. Compensated Absences.

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

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

#### (2) Changes in Accounting Principles and Restatement of Fund Balance.

For the fiscal year ended June 30, 2003, the school district implemented Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*; GASB Statement No. 38, *Certain Financial Statement Note Disclosures*; and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

At June 30, 2003, there was no effect on fund balances as a result of implementing GASB Statements 37 and 38.

GASB Statement No. 34 creates new basic financial statements for reporting on the school district's financial activities. The financial statements now include government-wide financial statements prepared on the accrual basis of accounting, and fund financial statements prepared on the modified accrual basis of accounting, which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2002, caused by the conversion to GASB Statement No. 34.

HAZLEHURST CITY SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2003

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

|   | General<br>Fund   | Child<br>Nutrition<br>Fund | Sixteenth<br>Section<br>Interest<br>Fund | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|-------------------|----------------------------|--|--------------------------------|--------------------------------|
| Fund Balances, June 30, 2002                        |                   |                            |  |                                |                                |
| As Originally Presented                             | \$ 138,411        | (650)                      |  | 645,637                        | 783,398                        |
| GASB Statement No. 34 Adjustments and Restatements: |                   |                            |  |                                |                                |
| Changes in fund structure                           |                   |                            | 460,497                                  | 115,237                        | 575,734                        |
| Restated Fund Balance, June 30, 2002                | <u>\$ 138,411</u> | <u>(650)</u>               | <u>460,497</u>                           | <u>760,874</u>                 | <u>1,359,132</u>               |
| GASB Interpretation 6:                              |                   |                            |  |                                |                                |
| Compensated absences payable                        |                   |                            |  |                                | (108,122)                      |
| GASB Statement No. 34 Adjustment:                   |                   |                            |  |                                |                                |
| Capital assets                                      |                   |                            |  |                                | 3,306,363                      |
| Accrued interest payable                            |                   |                            |  |                                | (53,536)                       |
| Long-term liabilities                               |                   |                            |  |                                | (2,947,388)                    |
| Reclassification of sixteenth section loans         |                   |                            |  |                                | 21,420                         |
| Litigation payment                                  |                   |                            |  |                                | <u>100,000</u>                 |
| Governmental Activities Net Assets, June 30, 2002   |                   |                            |  |                                | <u>\$ 1,677,869</u>            |

(3) Cash and Cash Equivalents.

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

The carrying amount of the school district's deposits with financial institutions was \$1,488,080, and the bank balance was \$1,779,490.

HAZLEHURST CITY SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2003

(4) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds.

|                                 | Due From     | Due To    |
|---------------------------------|--------------|-----------|
| Governmental Funds:             |              |           |
| General Fund                    | \$ 163,227   | 717,569   |
| Child Nutrition Fund            | 12,424       | 101,284   |
| Sixteenth Section Interest Fund | 302,538      |           |
| Other governmental funds        | 52,254       | 184,245   |
| Fiduciary funds                 | 472,970      | 315       |
| <br>Total                       | \$ 1,003,413 | 1,003,413 |

B. Advances To/From Other Funds.

|                          | Advances<br>To | Advances<br>From |
|--------------------------|----------------|------------------|
| Governmental Funds:      |                |                  |
| General Fund             | \$             | 18,708           |
| Other governmental funds | 18,708         |                  |
| <br>Total                | \$ 18,708      | 18,708           |

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

Sixteenth section principal loans payable.

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

|           | Year Ending<br>June 30 | Principal | Interest | Total  |
|-----------|------------------------|-----------|----------|--------|
| 2004      | \$                     | 2,820     | 748      | 3,568  |
| 2005      |                        | 2,933     | 635      | 3,568  |
| 2006      |                        | 3,051     | 518      | 3,569  |
| 2007      |                        | 3,173     | 396      | 3,569  |
| 2008      |                        | 3,299     | 269      | 3,568  |
| 2009      |                        | 3,432     | 137      | 3,569  |
| <br>Total | \$                     | 18,708    | 2,703    | 21,411 |

HAZLEHURST CITY SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2003

C. Transfers In/Out.

|                                 | <u>Transfer In</u> | <u>Transfers<br/>Out</u> |
|---------------------------------|--------------------|--------------------------|
| Governmental Funds:             |                    |                          |
| General Fund                    | \$ 249,163         | 362,376                  |
| Child Nutrition Fund            | 54,174             | 30,000                   |
| Sixteenth Section Interest Fund |                    | 231,687                  |
| Other governmental funds        | <u>391,840</u>     | <u>71,114</u>            |
| Total                           | <u>\$ 695,177</u>  | <u>695,177</u>           |

(5) Capital Assets.

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

|   | <u>Balance<br/>7-1-2002</u> | <u>Additions</u> | <u>Retirements</u> | <u>Adjustments</u> | <u>Balance<br/>6-30-2003</u> |
|---|-----------------------------|------------------|--------------------|--------------------|------------------------------|
| <u>Non-depreciable capital assets:</u>      |                             |                  |                    |                    |                              |
| Land  | \$ 25,000                   |                  |                    |                    | 25,000                       |
| Total non-depreciable capital assets        | <u>25,000</u>               | <u>0</u>         | <u>0</u>           | <u>0</u>           | <u>25,000</u>                |
| <u>Depreciable capital assets:</u>          |                             |                  |                    |                    |                              |
| Buildings                                   | 4,718,406                   |                  |                    | (96,744)           | 4,524,918                    |
| Building improvements                       |                             |                  |                    | 96,744             | 193,488                      |
| Mobile equipment                            | 1,205,700                   | 11,749           |                    |                    | 1,217,449                    |
| Furniture and equipment                     | 394,668                     |                  |                    |                    | 394,668                      |
| Total depreciable capital assets            | <u>6,318,774</u>            | <u>11,749</u>    | <u>0</u>           | <u>0</u>           | <u>6,330,523</u>             |
| <u>Less accumulated depreciation for:</u>   |                             |                  |                    |                    |                              |
| Buildings                                   | 1,959,372                   | 75,741           |                    |                    | 2,035,113                    |
| Building improvements                       | 7,740                       | 3,869            |                    |                    | 11,609                       |
| Mobile equipment                            | 767,703                     | 78,390           |                    |                    | 846,093                      |
| Furniture and equipment                     | 302,596                     | 23,723           |                    |                    | 326,319                      |
| Total accumulated depreciation              | <u>3,037,411</u>            | <u>181,723</u>   | <u>0</u>           | <u>0</u>           | <u>3,219,134</u>             |
| Total depreciable capital assets, net       | <u>3,281,363</u>            | <u>(169,974)</u> | <u>0</u>           | <u>0</u>           | <u>3,111,389</u>             |
| Governmental activities capital assets, net | <u>\$ 3,306,363</u>         | <u>(169,974)</u> | <u>0</u>           | <u>0</u>           | <u>3,136,389</u>             |

An adjustment was needed to reclassify assets reported in the incorrect asset group.

Depreciation expense was charged to the following governmental functions:

|                            | <u>Amount</u>     |
|----------------------------|-------------------|
| Instruction                | \$ 80,505         |
| Support services           | 81,661            |
| Non-instructional          | <u>19,557</u>     |
| Total Depreciation Expense | <u>\$ 181,723</u> |

HAZLEHURST CITY SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2003

(6) Long-term liabilities.

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

|  | Balance<br>7-1-2002 | Additions | Reductions     | Adjustments      | Balance<br>6-30-2003 | Amounts due<br>within one<br>year |
|--|---------------------|-----------|----------------|------------------|----------------------|-----------------------------------|
| A. General obligation bonds payable          | \$ 1,050,000        |           | 165,000        |                  | 885,000              | 170,000                           |
| B. Limited obligation bonds payable          |                     |           | 190,000        | 1,265,000        | 1,075,000            | 195,000                           |
| C. Three mill notes payable                  | 128,000             |           | 35,000         |                  | 93,000               | 25,000                            |
| D. Transportation equipment loans payable    | 153,522             |           | 51,999         |                  | 101,523              | 54,000                            |
| E. Obligations under capital leases          | 62,446              |           |                |                  | 62,446               | 62,446                            |
| F. Other loans payable                       | 1,432,000           |           | 30,000         | (1,265,000)      | 137,000              | 45,000                            |
| G. Compensated absences payable              | 108,122             |           | 11,520         |                  | 96,602               | 2,898                             |
| H. Sixteenth section principal loans payable | 21,420              |           |                | (21,420)         |                      |                                   |
| I. Judgements payable                        | 100,000             |           |                | (100,000)        |                      |                                   |
| Total  | \$ <u>3,055,510</u> | <u>0</u>  | <u>483,519</u> | <u>(121,420)</u> | <u>2,450,571</u>     | <u>554,344</u>                    |

An adjustment was needed to reclassify state aid capital improvement bonds to limited obligation bonds payable. Also, an adjustment was needed to reclassify sixteenth section principal loans payable in the amount of \$21,420 as advances for reporting purposes. An adjustment was also needed to reflect the \$100,000 payment for the overtime litigation.

A. General obligation bonds payable.

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

| Description                                     | Interest<br>Rate | Issue<br>Date | Maturity<br>Date | Amount<br>Issued           | Amount<br>Outstanding |
|---|------------------|---------------|------------------|----------------------------|-----------------------|
| General obligation refunding bonds, Series 1992 | Varies           | 08-01-92      | 08-01-07         | \$ <u>1,770,000</u>        | <u>885,000</u>        |
| Total   |                  |               |                  | \$ <u><u>1,770,000</u></u> | <u><u>885,000</u></u> |

HAZLEHURST CITY SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2003

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

|       | Year Ending |                |                |                  |
|-------|-------------|----------------|----------------|------------------|
|       | June 30     | Principal      | Interest       | Total            |
| 2004  | \$          | 170,000        | 44,185         | 214,185          |
| 2005  |             | 175,000        | 34,955         | 209,955          |
| 2006  |             | 180,000        | 25,280         | 205,280          |
| 2007  |             | 190,000        | 15,010         | 205,010          |
| 2008  |             | 170,000        | 4,845          | 174,845          |
| Total | \$          | <u>885,000</u> | <u>124,275</u> | <u>1,009,275</u> |

The amount of bonded indebtedness that can be incurred by the school district is limited by state statute. Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in state statutes, have been met. As of June 30, 2003, the amount of outstanding bonded indebtedness was equal to 2% of property assessments as of October 1, 2002. This debt will be retired from the 1993 Refunded Bond Retirement Fund (4032).

B. Limited obligation bonds payable.

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

| Description                         | Interest Rate | Issue Date | Maturity Date | Amount Issued       | Amount Outstanding |
|-------------------------------------|---------------|------------|---------------|---------------------|--------------------|
| State aid capital improvement bonds | 4.6%          | 04-01-98   | 08-01-07      | \$ 1,465,000        | 1,075,000          |
| Total                               |               |            |               | \$ <u>1,465,000</u> | <u>1,075,000</u>   |

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

|       | Year Ending |                  |                |                  |
|-------|-------------|------------------|----------------|------------------|
|       | June 30     | Principal        | Interest       | Total            |
| 2004  | \$          | 195,000          | 44,965         | 239,965          |
| 2005  |             | 205,000          | 35,765         | 240,765          |
| 2006  |             | 215,000          | 26,105         | 241,105          |
| 2007  |             | 225,000          | 15,985         | 240,985          |
| 2008  |             | 235,000          | 5,405          | 240,405          |
| Total | \$          | <u>1,075,000</u> | <u>128,225</u> | <u>1,203,225</u> |

HAZLEHURST CITY SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2003

The state aid capital improvement bonds are secured by an irrevocable pledge of certain revenues the district receives from the State of Mississippi pursuant to the Mississippi Accountability and Adequate Education Program Act, Sections 37-151-1 through 37-151-7, Miss. Code Ann. (1972). The state aid capital improvement bonds are not included in the computation of the debt limit percentage. This debt will be retired from the MAEP Note Fund (4024).

C. Three mill notes payable.

Debt currently outstanding is as follows:

| <u>Description</u> | <u>Interest Rate</u> | <u>Issue Date</u> | <u>Maturity Date</u> | <u>Amount Issued</u> | <u>Amount Outstanding</u> |
|--------------------|----------------------|-------------------|----------------------|----------------------|---------------------------|
| Three mill notes   | 5.15%                | 06-01-97          | 06-01-07             | \$ <u>445,000</u>    | <u>93,000</u>             |
| Total              |                      |                   |                      | \$ <u>445,000</u>    | <u>93,000</u>             |

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

| <u>Year Ending June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u>   |
|----------------------------|------------------|-----------------|----------------|
| 2004                       | \$ 25,000        | 4,790           | 29,790         |
| 2005                       | 25,000           | 3,502           | 28,502         |
| 2006                       | 25,000           | 2,214           | 27,214         |
| 2007                       | <u>18,000</u>    | <u>927</u>      | <u>18,927</u>  |
| Total                      | \$ <u>93,000</u> | <u>11,433</u>   | <u>104,433</u> |

This debt will be retired from the Three Mill Note Fund (4023).

D. Transportation equipment loans payable.

Debt currently outstanding is as follows:

| <u>Description</u>                | <u>Interest Rate</u> | <u>Issue Date</u> | <u>Maturity Date</u> | <u>Amount Issued</u> | <u>Amount Outstanding</u> |
|-----------------------------------|----------------------|-------------------|----------------------|----------------------|---------------------------|
| Transportation note, Series, 1999 | 4.44%                | 04-01-99          | 04-01-05             | \$ <u>294,500</u>    | <u>101,523</u>            |
| Total                             |                      |                   |                      | \$ <u>294,500</u>    | <u>101,523</u>            |

HAZLEHURST CITY SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2003

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

| Year Ending<br>June 30 | Principal         | Interest     | Total          |
|------------------------|-------------------|--------------|----------------|
| 2004                   | \$ 54,000         | 4,507        | 58,507         |
| 2005                   | 47,523            | 2,109        | 49,632         |
| Total                  | \$ <u>101,523</u> | <u>6,616</u> | <u>108,139</u> |

This debt will be retired from the EEF Buildings and Buses Fund (2410).

E. Obligations under capital leases.

The school district has entered into a lease agreement that qualifies as a capital lease for accounting purposes. Leased property under this lease is composed of computer hardware and software.

The lease includes a \$1 purchase option at the end of the lease term.

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

| Year Ending<br>June 30 | Principal        | Interest and<br>Maintenance<br>Charges | Total         |
|------------------------|------------------|--|---------------|
| 2004                   | \$ 62,446        | 9,643                                  | 72,089        |
| Total                  | \$ <u>62,446</u> | <u>9,643</u>                           | <u>72,089</u> |

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.



HAZLEHURST CITY SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2003

F. Other loans payable.

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

Debt currently outstanding is as follows:

| <u>Description</u> | <u>Interest Rate</u> | <u>Issue Date</u> | <u>Maturity Date</u> | <u>Amount Issued</u> | <u>Amount Outstanding</u> |
|--------------------|----------------------|-------------------|----------------------|----------------------|---------------------------|
| Loans payable      | 5.39%                | 02-15-00          | 02-15-06             | \$ <u>217,000</u>    | <u>137,000</u>            |
| Total              |                      |                   |                      | \$ <u>217,000</u>    | <u>137,000</u>            |

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

| <u>Year Ending June 30</u> | <u>Principal</u>  | <u>Interest</u> | <u>Total</u>   |
|----------------------------|-------------------|-----------------|----------------|
| 2004                       | \$ 45,000         | 7,384           | 52,384         |
| 2005                       | 50,000            | 4,959           | 54,959         |
| 2006                       | <u>42,000</u>     | <u>2,264</u>    | <u>44,264</u>  |
| Total                      | \$ <u>137,000</u> | <u>14,607</u>   | <u>151,607</u> |

This debt will be retired from the Limited Tax Note Fund (4033).

G. Compensated absences payable.

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

H. Sixteenth section principal loans payable.

The district reclassified sixteenth section principal loans payable as advances on the financial statements.

I. Judgements payable.

In the prior fiscal year, the district entered into an agreement with plaintiffs and attorneys involved in a wage and hour lawsuit to make interest free payments over several fiscal years in settlement of the lawsuit. The district made final payment during the current fiscal year.

HAZLEHURST CITY SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2003

(7) Defined Benefit Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2003, 2002 and 2001 were \$560,844, \$534,454 and \$521,192, respectively, which equaled the required contributions for each year.

(8) Other Commitments.

Operating lease:

The school district has an operating lease for eight Canon IR5000 copiers and three finisher/staplers.

Lease expenditures for the year ended June 30, 2003, amounted to \$79,064. Future lease payments for this lease are as follows:

| Year Ending<br>June 30 | Amount            |
|------------------------|-------------------|
| 2004                   | \$ 33,264         |
| 2005                   | 33,264            |
| 2006                   | 33,264            |
| 2007                   | <u>2,772</u>      |
| Total                  | <u>\$ 102,564</u> |

HAZLEHURST CITY SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2003

(9) Sixteenth Section Lands.

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

|             | <u>Year Ending</u> |  | <u>Amount</u>               |
|-------------|--------------------|--|-----------------------------|
|             | <u>June 30</u>     |  |                             |
| 2004        | \$                 |  | 80,108                      |
| 2005        |                    |  | 78,307                      |
| 2006        |                    |  | 77,105                      |
| 2007        |                    |  | 54,222                      |
| 2008        |                    |  | 47,760                      |
| 2009 - 2013 |                    |  | 210,875                     |
| 2014 - 2018 |                    |  | 210,875                     |
| 2019 - 2023 |                    |  | 180,749                     |
| 2024 - 2028 |                    |  | 159,670                     |
| Thereafter  |                    |  | <u>361,061</u>              |
| <br>Total   | <br>\$             |  | <br><u><u>1,460,732</u></u> |

(10) Prior Period Adjustments/Exhibits.

A summary of significant fund equity adjustments is as follows:

Exhibit B - Statement of Activities

| <u>Explanations</u>  |    | <u>Amount</u>          |
|--|----|------------------------|
| 1. To correct beginning fund balance, properly record advance, properly record interest in Agency Funds, and adjust prior year errors. | \$ | 27,538                 |
| 2. To reflect change from consumption to purchase method for inventory and to properly report inventories.                             |    | (3,947)                |
| 3. To defer revenue, to correct beginning fund balance, and properly record advance.   |    | <u>(42,044)</u>        |
| Total  | \$ | <u><u>(18,453)</u></u> |

HAZLEHURST CITY SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2003

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

| <u>Major Funds</u>       | <u>Explanations</u>  | <u>Amount</u>      |
|--------------------------|--|--------------------|
| General Fund             | Correct beginning fund balance, properly record advance and record interest in Agency Funds, and adjust prior year errors. | \$ 27,538          |
| Child Nutrition Fund     | To reflect change in inventory method and properly report inventories.   | (3,947)            |
| Other governmental funds | To defer revenue, to correct beginning fund balance, and properly record advance.  | <u>(42,044)</u>    |
|                          | Total  | <u>\$ (18,453)</u> |

(11) Risk Management.

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

Participation in Public Entity Risk Pool.

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 90 school districts and covers risks of loss arising from injuries to the school district's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Trustmark National Bank in Jackson. The funds in the trust account are used to pay any claim up to \$175,000. For a claim exceeding \$175,000, MSBAWCT has insurance which will pay the excess up to \$1,000,000. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

HAZLEHURST CITY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

HAZLEHURST CITY SCHOOL DISTRICT

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HAZLEHURST CITY SCHOOL DISTRICT  
 Budgetary Comparison Schedule  
 General Fund  
 For the Year Ended June 30, 2003

|  | Budgeted Amounts |                  | Actual<br>(GAAP Basis) | Variances<br>Positive (Negative) |                    |
|--|------------------|------------------|------------------------|----------------------------------|--------------------|
|  | Original         | Final            |                        | Original<br>to Final             | Final<br>to Actual |
| <b>Revenues:</b>                                     |                  |                  |                        |                                  |                    |
| Local sources  | \$ 2,104,562     | 1,915,887        | 2,061,675              | (188,675)                        | 145,788            |
| State sources  | 5,334,589        | 5,537,264        | 5,543,322              | 202,675                          | 6,058              |
| Federal sources                                      | 35,410           | 35,409           | 12,251                 | (1)                              | (23,158)           |
| Total Revenues                                       | <u>7,474,561</u> | <u>7,488,560</u> | <u>7,617,248</u>       | <u>13,999</u>                    | <u>128,688</u>     |
| <b>Expenditures:</b>                                 |                  |                  |                        |                                  |                    |
| Instruction  | 4,476,329        | 4,532,776        | 4,850,361              | (56,447)                         | (317,585)          |
| Support services                                     | 2,632,912        | 2,536,179        | 2,502,779              | 96,733                           | 33,400             |
| Principal  | 190,000          | 190,000          |                        |                                  | 190,000            |
| Interest   | 53,820           | 53,820           | 857                    |                                  | 52,963             |
| Total Expenditures                                   | <u>7,353,061</u> | <u>7,312,775</u> | <u>7,353,997</u>       | <u>40,286</u>                    | <u>(41,222)</u>    |
| Excess (Deficiency) of Revenues<br>over Expenditures | <u>121,500</u>   | <u>175,785</u>   | <u>263,251</u>         | <u>54,285</u>                    | <u>87,466</u>      |
| <b>Other Financing Sources (Uses):</b>               |                  |                  |                        |                                  |                    |
| Operating transfers in                               | 779,510          | 851,379          | 249,163                | 71,869                           | (602,216)          |
| Operating transfers out                              | (901,010)        | (901,010)        | (362,376)              |                                  | 538,634            |
| Total Other Financing Sources (Uses)                 | <u>(121,500)</u> | <u>(49,631)</u>  | <u>(113,213)</u>       | <u>71,869</u>                    | <u>(63,582)</u>    |
| Net Change in Fund Balances                          | <u>0</u>         | <u>126,154</u>   | <u>150,038</u>         | <u>126,154</u>                   | <u>23,884</u>      |
| <b>Fund Balances:</b>                                |                  |                  |                        |                                  |                    |
| July 1, 2002   | 0                | 168,238          | 138,411                | 168,238                          | (29,827)           |
| Prior period adjustments                             |                  |                  | 27,538                 |                                  | 27,538             |
| July 1, 2002, as restated                            | <u>0</u>         | <u>168,238</u>   | <u>165,949</u>         | <u>168,238</u>                   | <u>(2,289)</u>     |
| June 30, 2003  | \$ <u>0</u>      | <u>294,392</u>   | <u>315,987</u>         | <u>294,392</u>                   | <u>21,595</u>      |

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

HAZLEHURST CITY SCHOOL DISTRICT  
 Budgetary Comparison Schedule  
 Child Nutrition Fund  
 For the Year Ended June 30, 2003

|  | Budgeted Amounts |                  | Actual<br>(GAAP Basis) | Variances<br>Positive (Negative) |                    |
|--|------------------|------------------|------------------------|----------------------------------|--------------------|
|  | Original         | Final            |                        | Original<br>to Final             | Final<br>to Actual |
| <b>Revenues:</b>                                     |                  |                  |                        |                                  |                    |
| Local sources  | \$ 149,923       | 149,923          | 169,506                |                                  | 19,583             |
| State sources  | 5,344            | 5,344            |                        |                                  | (5,344)            |
| Federal sources                                      | 851,401          | 851,401          | 844,411                |                                  | (6,990)            |
| Total Revenues                                       | <u>1,006,668</u> | <u>1,006,668</u> | <u>1,013,917</u>       | <u>0</u>                         | <u>7,249</u>       |
| <b>Expenditures:</b>                                 |                  |                  |                        |                                  |                    |
| Support services                                     | 137,147          | 136,508          | 130,589                | 639                              | 5,919              |
| Noninstructional services                            | 865,255          | 848,988          | 885,774                | 16,267                           | (36,786)           |
| Total Expenditures                                   | <u>1,002,402</u> | <u>985,496</u>   | <u>1,016,363</u>       | <u>16,906</u>                    | <u>(30,867)</u>    |
| Excess (Deficiency) of Revenues<br>over Expenditures | <u>4,266</u>     | <u>21,172</u>    | <u>(2,446)</u>         | <u>16,906</u>                    | <u>(23,618)</u>    |
| <b>Other Financing Sources (Uses):</b>               |                  |                  |                        |                                  |                    |
| Operating transfers in                               | 11,621           | 11,621           | 54,174                 |                                  | 42,553             |
| Operating transfers out                              | (15,887)         | (15,887)         | (30,000)               |                                  | (14,113)           |
| Total Other Financing Sources (Uses)                 | <u>(4,266)</u>   | <u>(4,266)</u>   | <u>24,174</u>          | <u>0</u>                         | <u>28,440</u>      |
| Net Change in Fund Balances                          | <u>0</u>         | <u>16,906</u>    | <u>21,728</u>          | <u>16,906</u>                    | <u>4,822</u>       |
| <b>Fund Balances:</b>                                |                  |                  |                        |                                  |                    |
| July 1, 2002   | 0                | 1,237            | (650)                  | 1,237                            | (1,887)            |
| Prior period adjustments                             |                  |                  | (3,947)                |                                  | (3,947)            |
| July 1, 2002, as restated                            | <u>0</u>         | <u>1,237</u>     | <u>(4,597)</u>         | <u>1,237</u>                     | <u>(5,834)</u>     |
| Increase in reserve for inventory                    | <u>0</u>         | <u>0</u>         | <u>767</u>             | <u>0</u>                         | <u>767</u>         |
| June 30, 2003  | <u>\$ 0</u>      | <u>18,143</u>    | <u>17,898</u>          | <u>18,143</u>                    | <u>(245)</u>       |

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



HAZLEHURST CITY SCHOOL DISTRICT  
 Budgetary Comparison Schedule  
 Sixteenth Section Interest Fund  
 For the Year Ended June 30, 2003

|  | Budgeted Amounts  |                  | Actual<br>(GAAP Basis) | Variances<br>Positive (Negative) |                    |
|--|-------------------|------------------|------------------------|----------------------------------|--------------------|
|  | Original          | Final            |                        | Original<br>to Final             | Final<br>to Actual |
| Revenues:  |                   |                  |                        |                                  |                    |
| Sixteenth section sources                            | \$ 230,000        | 230,000          | 94,595                 |                                  | (135,405)          |
| Total Revenues                                       | <u>230,000</u>    | <u>230,000</u>   | <u>94,595</u>          | <u>0</u>                         | <u>(135,405)</u>   |
| Expenditures:  |                   |                  |                        |                                  |                    |
| Sixteenth section                                    |                   |                  | 13,479                 |                                  | (13,479)           |
| Total Expenditures                                   | <u>0</u>          | <u>0</u>         | <u>13,479</u>          | <u>0</u>                         | <u>(13,479)</u>    |
| Excess (Deficiency) of Revenues<br>over Expenditures | <u>230,000</u>    | <u>230,000</u>   | <u>81,116</u>          | <u>0</u>                         | <u>(148,884)</u>   |
| Other Financing Sources (Uses):                      |                   |                  |                        |                                  |                    |
| Operating transfers out                              | <u>(100,000)</u>  | <u>(162,512)</u> | <u>(231,687)</u>       | <u>(62,512)</u>                  | <u>(69,175)</u>    |
| Total Other Financing Sources (Uses)                 | <u>(100,000)</u>  | <u>(162,512)</u> | <u>(231,687)</u>       | <u>(62,512)</u>                  | <u>(69,175)</u>    |
| Net Change in Fund Balances                          | <u>130,000</u>    | <u>67,488</u>    | <u>(150,571)</u>       | <u>(62,512)</u>                  | <u>(218,059)</u>   |
| Fund Balances:                                       |                   |                  |                        |                                  |                    |
| July 1, 2002   | <u>0</u>          | <u>0</u>         | <u>460,497</u>         | <u>0</u>                         | <u>460,497</u>     |
| June 30, 2003  | <u>\$ 130,000</u> | <u>67,488</u>    | <u>309,926</u>         | <u>(62,512)</u>                  | <u>242,438</u>     |

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

HAZLEHURST CITY SCHOOL DISTRICT

Notes to the Required Supplementary Information  
For the Year Ended June 30, 2003

Budgetary Comparison Schedule

(1) Basis of Presentation.

The Budgetary Comparison Schedule presents 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 the date established by the Mississippi Department of Education. 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.

(3) Individual Fund Disclosures.

Individual funds that were required to be budgeted but were not budgeted are as follows:

| <u>Individual Fund</u>             |    | <u>Amount</u> |
|------------------------------------|----|---------------|
| Technology Literacy Challenge Fund | \$ | 12,506        |
| Forestry Escrow Fund               |    | 32,923        |

The unbudgeted funds are in violation of state law. However, the school district has no liability associated with this violation.

The JROTC fund has an excess of expenditures over budget in the amount of \$5,101. The fund with the excess of expenditures over budget is in violation of state law. However, the school district has no liability associated with these violations.

HAZLEHURST CITY SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

HAZLEHURST CITY SCHOOL DISTRICT  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2003

| Federal Grantor/<br>Pass-through Grantor/<br>Program Title | Catalog of<br>Federal Domestic<br>Assistance Number | Federal<br>Expenditures |
|--|---|-------------------------|
| <u>U.S. Department of Agriculture</u>                      |   |                         |
| Passed-through Mississippi Department of Education:        |   |                         |
| Non-cash assistance:                                       |   |                         |
| Food donation  | 10.550  | \$ <u>73,341</u>        |
| Child nutrition cluster:                                   |   |                         |
| School breakfast program                                   | 10.553  | 216,037                 |
| National school lunch program                              | 10.555  | 539,546                 |
| Summer food service program for children                   | 10.559  | 20,817                  |
| Total child nutrition cluster                              |   | <u>776,400</u>          |
| Total passed-through Mississippi Department of Education   |   | <u>849,741</u>          |
| Total U.S. Department of Agriculture                       |   | <u>849,741</u>          |
| <u>U.S. Department of Defense</u>                          |   |                         |
| Direct program:  |   |                         |
| Reserve Officers' Training Corps                           | 12.XXX  | 45,826                  |
| Total U.S. Department of Defense                           |   | <u>45,826</u>           |
| <u>U.S. Department of Education</u>                        |   |                         |
| Passed-through Mississippi Department of Education:        |   |                         |
| Title I - grants to local educational agencies             | 84.010  | 592,281                 |
| Vocational education - basic grants to states              | 84.048  | 27,766                  |
| Safe and drug-free schools and communities - state grants  | 84.186  | 11,741                  |
| Innovative education program strategies                    | 84.298  | 29,262                  |
| Education technology state grants                          | 84.318  | 11,855                  |
| Improving teacher quality - state grants                   | 84.367  | 137,052                 |
| Total  |   | <u>809,957</u>          |
| Special education cluster:                                 |   |                         |
| Special education - grants to states                       | 84.027  | 229,833                 |
| Special education - preschool grants                       | 84.173  | 853                     |
| Total  |   | <u>230,686</u>          |
| Total passed-through Mississippi Department of Education   |   | <u>1,040,643</u>        |
| Total U.S. Department of Education                         |   | <u>1,040,643</u>        |
| Total for All Federal Awards                               |   | <u>\$ 1,936,210</u>     |

NOTES TO SCHEDULE

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

HAZLEHURST CITY SCHOOL DISTRICT

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

HAZLEHURST CITY SCHOOL DISTRICT

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## State of Mississippi

OFFICE OF THE STATE AUDITOR  
PHIL BRYANT  
AUDITOR

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

Superintendent and School Board  
Hazlehurst City School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Hazlehurst City School District as of and for the year ended June 30, 2003, and have issued our report thereon dated August 24, 2004. 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.

### Compliance

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the school district in a separate letter dated August 24, 2004, which is included in this report.

### Internal Control Over Financial Reporting

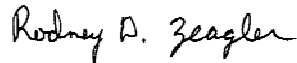
In planning and performing our audit, we considered the school district's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our opinion, could adversely affect the school district's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the Schedule of Findings and Questioned Costs as Findings 03-1 through 03-7.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions and, accordingly, would not also disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions referred to above is a material weakness.

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.



PHIL BRYANT  
State Auditor



RODNEY D. ZEAGLER, CPA  
Director, Financial and Compliance Audit Division

August 24, 2004





## State of Mississippi

OFFICE OF THE STATE AUDITOR  
PHIL BRYANT  
AUDITOR

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

Superintendent and School Board  
Hazlehurst City School District

### Compliance

We have audited the compliance of the Hazlehurst City School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The school district's major federal programs are identified in the summary of auditor's results section of the Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the school district's management. Our responsibility is to express an opinion on the school district's compliance based on our audit.

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

As described in Finding 03-8 in the Schedule of Findings and Questioned Costs, the school district did not comply with requirements regarding allowable cost/cost principles that are applicable to its child nutrition cluster. Compliance with such requirements is necessary, in our opinion, for the school district to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Hazlehurst City School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

## Internal Control Over Compliance

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

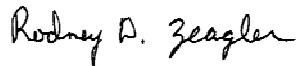
We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our opinion, could adversely affect the school district's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the Schedule of Findings and Questioned Costs as Finding 03-9.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described in the finding referred to above is not a material weakness.

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.



PHIL BRYANT  
State Auditor



RODNEY D. ZEAGLER, CPA  
Director, Financial and Compliance Audit Division

August 24, 2004

HAZLEHURST CITY SCHOOL DISTRICT

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

HAZLEHURST CITY SCHOOL DISTRICT

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## State of Mississippi

OFFICE OF THE STATE AUDITOR  
PHIL BRYANT  
AUDITOR

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

Superintendent and School Board  
Hazlehurst City School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Hazlehurst City School District as of and for the year ended June 30, 2003, and have issued our report thereon dated August 24, 2004. 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*.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$35,912 of classroom supply funds carried over from previous years.

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

1. Finding

The balance in the unemployment compensation fund was maintained below the required two percent (2%) level. At June 30, 2003, the available balance of the fund was \$25,000. This was \$11,600 below the minimum required balance of \$36,600.

Recommendation

The district should comply with Section 71-5-359, Miss. Code Ann. (1972), which requires that districts maintain an available balance in the unemployment compensation fund of two percent (2%) of the first \$6,000 of covered wages paid during the immediately preceding calendar year. We further recommend the district make the necessary transfers to bring the available balance up to the required amount.

School District's Response

We concur. The district has obtained the formula to properly calculate the required balance and has adequately restored the balance effective for the year-end 2003-2004.

2. Finding

During our examination of 50 payroll expenditure transactions selected for test purposes, it was noted that two non-certified employees were not approved for employment by the board. We also noted that two other employees' salaries were not documented as being approved by the board.

Recommendation

The district should comply with Section 37-7-301(w), Miss. Code Ann. (1972), which establishes the duties of the school board to employ all non-instructional and non-certified employees and fix the duties and compensation for such personnel. Such salaries should be limited to the amounts set by the school board.

School District's Response

We concur.

3. Finding

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

Recommendation

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

School District's Response

We concur. This list was prepared by the previous administration manually. The current administration is implementing procedures to retrieve this report via the student software SAM 6i. Expected date of completion is October 2004.

4. Finding

The district failed to share sixteenth section revenue with school districts where township land areas are shared.

Recommendation

The district should comply with Section 29-3-119, Miss. Code Ann. (1972), which requires that sixteenth section revenues be properly divided with other school districts who share townships with the district.

School District's Response

We concur. The district also did not receive revenue from districts where township land areas are shared. Progress is being made to resolve this finding as soon as possible. School administrators from both districts have indicated a willingness to exchange revenue to comply with state regulations.

5. Finding

Two individuals acting as purchasing agents were not properly bonded as purchasing agents.

Recommendation

The district should comply with Section 37-39-21, Miss. Code Ann. (1972), which requires that all purchasing agents be covered by surety bonds in the penal sum of at least \$50,000. It also requires that these surety bonds be filed and recorded in the office of the clerk of the chancery court in which the school district is located.

School District's Response

We concur.

6. Finding

The following instances of noncompliance with budgeting statutes were noted:

- A. During our examination of the district's last approved budget on or before the date set by the Mississippi Department of Education, we noted that the following funds were not budgeted:

|                                    |          |
|------------------------------------|----------|
| Special Revenue Funds              |          |
| Technology Literacy Challenge Fund | \$12,506 |
| Forestry Escrow Fund               | 32,923   |

- B. A comparison of actual functional expenditures with the last legally adopted budget, as approved by the school board for fiscal year ended June 30, 2003, indicated that expenditures exceeded resources available in the JROTC Fund (Special Revenue Fund) by \$5,101.

Recommendation

The district should take the following steps to correct the noncompliance:

- A. The district should comply with Section 37-61-19, Miss. Code Ann. (1972), which requires a fund be budgeted before any expenditures are incurred in that fund.
- B. The district should comply with Section 37-61-19, Miss. Code Ann. (1972), which requires expenditures be limited by fund to resources available.

School District's Response

We concur. The budget will be amended to reflect actual expenditure, revenue and carryover, if applicable, for all funds.

7. Finding

During our examination of ten sixteenth section lease payments, we noted two leases in which the lessee's payment was more than 60 days in default.

Recommendation

The district should comply with Section 29-3-57, Miss. Code Ann. (1972), which requires “the superintendent of education shall keep a current docket as to the expiration date of all leases on sixteenth section lands; likewise, he shall keep a correct current docket upon the existing leases or any extensions thereof as to the amounts and time of payment of rentals due and all principal and interest due upon loans and investments of sixteenth section funds. Upon a sixty (60) day default in payment of any rentals according to the terms of such lease, the lease shall be declared terminated unless the board of education finds extenuating circumstances were present, and the board shall inaugurate the proper legal proceedings to terminate the lease.”

School District’s Response

We concur.

8. Finding

During our test of operating transfers, it was noted that a transfer from the Sixteenth Section Interest Fund in the amount of \$169,075 was made without board approval.

Recommendation

The district should comply with Section 29-3-117, Miss. Code Ann. (1972), which requires board approval for transfers from sixteenth section funds.

School District’s Response

We concur.

9. Finding

A sixteenth section principal loan from a prior year was not documented as being approved by the board.

Recommendation

The district should comply with Section 29-3-113, Miss. Code Ann. (1972), which requires board approval for all funds borrowed from the Sixteenth Section Principal Fund. We recommend that the outstanding principal and interest payments, in the amount of \$17,844, immediately be repaid on the sixteenth section principal loan.

School District’s Response

We concur.

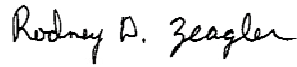
The Office of the State Auditor or a public accounting firm will review, on the subsequent year's audit engagement, the findings in this report to insure that corrective action has been taken.



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



PHIL BRYANT  
State Auditor



RODNEY D. ZEAGLER, CPA  
Director, Financial and Compliance Audit Division

August 24, 2004

HAZLEHURST CITY SCHOOL DISTRICT

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HAZLEHURST CITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

HAZLEHURST CITY SCHOOL DISTRICT

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HAZLEHURST CITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2003

Section 1: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

- |     |   |           |
|-----|---|-----------|
| 4.  | Type of auditor's report issued on compliance for major federal programs:   | Qualified |
| 5.  | Internal control over major programs:   |           |
| a.  | Material weakness(es) identified?   | No        |
| b.  | Reportable condition(s) identified that are not considered to be material weaknesses?   | Yes       |
| 6.  | Any audit finding(s) reported as required by Section ____510(a) of Circular A-133?  | Yes       |
| 7.  | Federal programs identified as major programs:  |           |
| a.  | Child nutrition cluster<br>CFDA #10.553<br>CFDA #10.555<br>CFDA #10.559   |           |
| b.  | Title I - grants to local educational agencies<br>CFDA #84.010  |           |
| 8.  | The dollar threshold used to distinguish between type A and type B programs:  | \$300,000 |
| 9.  | Auditee qualified as a low-risk auditee?  | No        |
| 10. | Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____315(b) of OMB Circular A-133? | Yes       |

HAZLEHURST CITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2003

Section 2: Financial Statement Findings

Reportable Conditions Not Considered to be Material Weaknesses

03-1. Finding

During our test work of interfund loans, we noted that a number of loans generated in prior years had not been repaid or cleared as of the audit date.

Recommendation

The district should implement procedures to insure that the above noted weakness is corrected. Guidance can be found in the *Financial Accounting Manual for Mississippi Public School Districts*.

03-2. Finding

The following deficiencies were noted during our examination of the June 30, 2003, district-prepared financial statements. Adjustments were made to correct the noted deficiencies.

- A. The cash balance per the financial statements did not agree with the cash balance per the bank reconciliation for several funds resulting in immaterial differences.
- B. The athletic activity fund has a negative cash balance of \$16,613 as of June 30, 2003.
- C. Student club funds were recorded in the General Activity Funds.

Recommendation

The district should implement procedures to insure the above noted weaknesses are corrected. Guidance can be found in the *Financial Accounting Manual for Mississippi Public School Districts*.

03-3. Finding

During our examination of ten sixteenth section lease payments, we noted that six lease payments were not deposited in a timely manner.

Recommendation

The district should insure that all receipts are deposited timely.

03-4. Finding

The following weaknesses were noted during our examination of general activity and club fund receipts:

- A. Deposits were not made timely.
- B. A three-part receipt book was not used.
- C. Transmittal reports are not submitted to the central office detailing Agency Fund transactions on a monthly basis.

HAZLEHURST CITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2003

Recommendation

The district should implement policies and procedures to correct the above noted weaknesses. At a minimum, the district should implement the following procedures:

- A. Deposits should be made timely.
- B. A three-part receipt book should be used for all activity and club funds.
- C. Each school should submit a transmittal report to the central office detailing all transactions for the preceding month no later than five days after the close of the month.

03-5. Finding

The district did not have adequate policies and procedures in place detailing a disaster recovery plan.

Recommendation

The district should establish adequate policies and procedures regarding its disaster recovery plan. The plan should be tested on a regular basis and a copy of the plan should be distributed to all related parties, as well as maintained at the off-site tape storage location.

03-6. Finding

The accounting software allows users to edit or delete critical data (receipts, purchase orders, claims and warrants) until the month is closed out. We found that the district's accounting software was set to allow four months to remain open at one time. Editing or deleting of critical data should not be allowed without providing a clear audit trail. Changes to original data should be documented by a journal entry.

Recommendation

The district should implement policies and controls to insure that changes to critical data are only made through the journal entry process. The district's software should be set to allow only two months to remain open at one time.

03-7. Finding

During our review of the district's computer systems, we noted the following weaknesses in access controls:

- A. Unique passwords were not required for user accounts. One user had two ID's.
- B. User accounts did not have a minimum password length.
- C. Hardware/software furnished names and generic user names were not disabled.
- D. User accounts were not disabled after a set number of unsuccessful attempts.
- E. User accounts were not set to expire. There were several users who were no longer employed by the district.

HAZLEHURST CITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2003

- F. User passwords could only be assigned and changed by the system administrator.
- G. All employees had access to all modules, including accounts payable and payroll functions which created a separation of duties weakness.

The *Control Objectives for Information and Related Technology* (CobiT), a generally accepted standard for good information technology security and control practices, as well as industry best practices, requires the existence of adequate access controls. The lack of control over passwords could result in inadequate security over access to the financial system of the district.

Recommendation

The district should strengthen controls over its computer systems. Management should set and implement adequate password standards. Single unique passwords should be required for all users. Passwords should have a minimum length of five or six characters. Generic user names should be disabled. Users should be locked out after a set number (usually three) of login attempts have been made. Passwords should be set to expire on a 60 to 90 day interval, and be aged periodically. Passwords should be changed by the user. Also, management should evaluate employees' computer access in relation to their responsibilities in order to insure a proper separation of duties.

Section 3: Federal Award Findings and Questioned Costs

Material Noncompliance

03-8. Finding

Program: Child nutrition cluster - CFDA #'s 10.553, 10.555 & 10.559; U.S. Department of Agriculture; passed-through the Mississippi Department of Education

Compliance requirement: Allowable cost/cost principles

Questioned costs: \$55,843

During our examination of payroll expenditures, it was noted that one employee's salary was allocated between District Maintenance Fund, Child Nutrition Fund and Partners For Education Fund. However, time sheets were not provided documenting the percentage of time spent performing program duties. Per review of the employees' payroll detail reports and calculation of benefits, \$55,843 of the employee's salary was paid from the Child Nutrition Fund. This situation resulted in a questioned cost under the allowable cost/cost principles compliance requirements of the child nutrition cluster.

Recommendation

The district should implement procedures that will insure compliance with allowable costs provisions of OMB Circular A-87, which notes that support of salaries and wages, i.e., personnel activity reports or equivalent documentation, must meet the following standards:

- A. Reflect an after-the-fact distribution of the actual activity of each employee.
- B. Account for the total activity for which each employee is compensated.



HAZLEHURST CITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2003

- C. Must be prepared at least monthly and coincide with one or more pay periods.
- D. Must be signed by the employee.

Reportable Condition Not Considered to be Material Weaknesses

03-9. Finding

Program: Title I grants to local educational agencies - CFDA #84.010; U.S. Department of Education; passed-through the Mississippi Department of Education

Compliance requirement: Allowable cost/cost principles

During our examination of payroll expenditures selected for test purposes, it was noted that an employee was approved to be paid 80% from Title I and 20% from Title IV. It was noted, however, that the employee was paid 100% from Title I.

Recommendation

The district should implement procedures that will insure compliance with allowable costs provisions of OMB Circular A-87. This circular requires documentation such as personnel activity reports or equivalent documentation to support payments for salaries and wages that are allocated between programs.

HAZLEHURST CITY SCHOOL DISTRICT

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HAZLEHURST CITY SCHOOL DISTRICT

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

HAZLEHURST CITY SCHOOL DISTRICT

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# Hazlehurst City School District

www.hazlehurst.k12.ms.us  
(601) 894-1152 Phone

BUSINESS OFFICE  
Shelton Wilder, Superintendent

119 Robert McDaniel Dr.  
Hazlehurst, MS 39083

## Financial & Compliance Audit Division

As required by Section \_\_.315 (c) of OMB Circular A-133, the Hazlehurst City 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, 2003:

| <b><u>Finding</u></b> | <b><u>Corrective Action Plan Details</u></b>  |
|-----------------------|---|
| 03-1                  | <p>a. <b>Name(s) of Contact Person(s) Responsible for Corrective Action:</b><br/><i>N.N. Beckley-Holloway, Business Manager 601-894-1152</i></p> <p>b. <b>Corrective Action Planned:</b><br/><i>Repay outstanding prior year interfund loans.</i></p> <p>c. <b>Anticipated Completion Date:</b><br/><i>October 15, 2004</i></p>   |
| 03-2                  | <p>a. <b>Name(s) of Contact Person(s) Responsible for Corrective Action:</b><br/><i>N.N. Beckley-Holloway, Business Manager 601-894-1152</i></p> <p>b. <b>Corrective Action Planned:</b><br/><i>(1) Reconcile immaterial cash per bank and cash per financial statement differences. (2) Transfer funds from District Maintenance to Athletic Activity. (3) Prepare journal entries to classify club funds as agency rather than general.</i></p> <p>c. <b>Anticipated Completion Date:</b><br/><i>October 15, 2004</i></p> |
| 03-3                  | <p>a. <b>Name(s) of Contact Person(s) Responsible for Corrective Action:</b><br/><i>N.N. Beckley-Holloway, Business Manager 601-894-1152</i></p> <p>b. <b>Corrective Action Planned:</b><br/><i>Deposit all receipts timely.</i></p> <p>c. <b>Anticipated Completion Date:</b><br/><i>Immediately</i></p>   |

*N. N.*  
**BECKLEY-HOLLOWAY**

Business Manager  
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(601) 894-3972 Fax

*ANN J.*  
**TANNER**

Payroll/AP Manager  
ann.tanner@hazlehurst.k12.ms.us  
(601) 894-2230 Fax

- 03-4**
- a. Name(s) of Contact Person(s) Responsible for Corrective Action:**  
*N.N. Beckley-Holloway, Business Manager 601-894-1152*
  - b. Corrective Action Planned:**  
*Deposit all receipts timely; receipt all activity and club funds using a three part receipt book; implement procedures to ensure transmittal reports are received from each school no later than five days after the close of the month.*
  - c. Anticipated Completion Date:**  
*Immediately*
- 03-5**
- a. Name(s) of Contact Person(s) Responsible for Corrective Action:**  
*N.N. Beckley-Holloway, Business Manager 601-894-1152*
  - b. Corrective Action Planned:**  
*Develop a disaster recovery plan.*
  - c. Anticipated Completion Date:**  
*November 30, 2004*
- 03-6**
- a. Name(s) of Contact Person(s) Responsible for Corrective Action:**  
*N.N. Beckley-Holloway, Business Manager 601-894-1152*
  - b. Corrective Action Planned:**  
*Allow only two months to remain open at one time; amend critical information to data only through the journal entry process.*
  - c. Anticipated Completion Date:**  
*Immediately*
- 03-7**
- a. Name(s) of Contact Person(s) Responsible for Corrective Action:**  
*N.N. Beckley-Holloway, Business Manager 601-894-1152*
  - b. Corrective Action Planned:**  
*Contact the software provider to modify system access controls as recommended per the Department of Audit, EDP Division.*
  - c. Anticipated Completion Date:**  
*Immediately*

- 03-8**
- a. **Name(s) of Contact Person(s) Responsible for Corrective Action:**  
*Lilly Bouie, Child Nutrition Administrator 601-894-1512*
  - b. **Corrective Action Planned:**  
*No action necessary. Dual position no longer exists effective 2003-2004 fiscal year.*
  - c. **Anticipated Completion Date:**  
*Not applicable*
- 03-9**
- a. **Name(s) of Contact Person(s) Responsible for Corrective Action:**  
*N.N. Beckley-Holloway, Business Manager 601-894-1152*
  - b. **Corrective Action Planned:**  
*No action necessary. A journal entry was made to correct the prorated salary and funds were transferred within the 2003-2004 fiscal year.*
  - c. **Anticipated Completion Date:**  
*Not applicable*

Sincerely yours,



N.N. Beckley-Holloway  
Business Manager

Cc: Dr. Gloria Robinson, Acting Superintendent  
Ron Stanton, Board President  
Jessie Jones, Vice President  
Larry Banes, Secretary  
Shirley Sandifer, Member  
Dr. Bettie McDaniel, Member  
Nathaniel Armistad, Esq.

# Hazlehurst City School District

SHELTON WILDER  
Superintendent of Education

EVA THOMAS  
Administrative Assistant

August 30, 2004

Office of the State Auditor  
Financial and Compliance Audit Division  
P.O. Box 956  
Jackson, MS 39205-0956

As required by Section \_\_\_\_ .315 (b) of OMB Circular A-133, the Hazlehurst City School District has prepared and hereby submits the following summary schedule of prior audit finding as of June 30, 2003:

2002-03

Program:

Child Nutrition Cluster  
School Breakfast Program-CFDA# 10.553 U.S. Department of Agriculture  
National School Lunch Program-CFDA# 10.555 U.S. Department of Agriculture

The District did not book the receipt of donated commodities monthly, therefore the monthly financial statements were inaccurate. Donated commodities were booked one time at the end of the year.

Status:

The District has taken measures toward recording donated commodities in the general ledger monthly rather than annually.

2002-04

Program:

Child Nutrition Cluster  
School Breakfast Program-CFDA# 10.553 U.S. Department of Agriculture  
National School Lunch Program-CFDA# 10.555 U.S. Department of Agriculture

Credit charges

Status:

The District is implementing policies that insure District credit cards are used solely for business purposes as well as examining the District's overall policy regarding credit cards.

Sincerely,



Shelton Wilder  
Superintendent of Education

*"All Children Will Learn Well"*

119 Robert McDaniel Drive • Hazlehurst, Mississippi 39083  
(601) 894-1152 • (601) 894-3170 Fax