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PETAL SCHOOL DISTRICT
Audited Financial Statements
For the Year Ended June 30, 2006

PETAL SCHOOL DISTRICT
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McDaniel CPA Firm
Certified Public Accountant / Financial Consultant

Scotty McDaniel, CPA

MEMBER
Mississippi Society
of Certified Public
Accountants

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

May 7, 2007

Superintendent and School Board
Petal School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Petal School District as of and for the year ended June 30, 2006, which collectively comprise the Petal School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Petal 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 Petal School District, as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 7, 2007, on our consideration of the Petal School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages (3) through (10) and the Budgetary Comparison Schedule and corresponding notes on pages (35) through (38) 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 Petal School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. In addition, the Schedule of Instructional, Administrative and Other Expenditures – Governmental Funds is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

McDaniel CPA Firm

MANAGEMENT'S DISCUSSION AND ANALYSIS

**PETAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006**

The discussion and analysis of Petal School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2006. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

The District is governed by the Board of Education that consists of five members. The Board has responsibility for setting policies for operation of the District and has full control of the distribution, allotment and disbursement of all revenues provided for its support and operation.

In addition, the Board is responsible for organizing the schools of the District; introducing special subjects for instruction; serving as custodian of school property; erecting, repairing and equipping school facilities and improvements; maintaining pupil discipline; carrying out public health programs such as vaccination requirements; regulating use of the schools by the public; prescribing rules and regulations for its own government and government of the schools; maintaining and operating the schools under its control for the time required by law; enforcing in the schools the courses of study and use of textbooks prescribed by law; making orders directed to the superintendent for the issuance of pay certificates for lawful purposes on any available funds of the District; providing and regulating athletic programs and other school activities; and performing other duties prescribed by law.

The District operated two elementary schools, one middle school, one high school and one parenting center.

FINANCIAL HIGHLIGHTS

- Total net assets increased \$ 7,621,351, which represents 42 % increase from fiscal year 2005.
- General revenues account for \$ 25,014,068 in revenue, or 73 % of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$ 9,332,990 or 27 % of total revenues.
- The District had \$ 26,725,707 in expenses; only \$ 9,332,990 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$ 25,014,068 were adequate to provide for these programs.
- Among major funds, the General Fund had \$ 23,253,789 in revenues and \$ 16,830,661 in expenditures. The General Fund's fund balance increased \$ 637,875 over the prior year due to the use of Federal Disaster Relief funds for local salaries.

**PETAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006**

- Capital assets, net of accumulated depreciation, increased by \$ 1,129,582.
- Long-term debt decreased by \$ 568,707. The debt decreased due to the amount of principal paid.

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 on pages 11 - 12 of 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.

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

**PETAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006**

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 on pages 13 and 15, respectively, of this report.

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

The basic governmental fund financial statements can be found on pages 13 – 16 of 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 on page 17.

Notes to the financial statements. The notes provide additional information that is essential to have a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18 -34 of 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.

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 on pages 35 - 38 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and a schedule of instructional, administrative and other expenditures for governmental funds can be found on pages 39 and 40, respectively, of this report.

**PETAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006**

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 \$ 25,828,356 as of June 30, 2006.

By far the largest portion of the District's net assets (59%) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment, leased property under capital leases and construction in progress) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

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

The following table presents a summary of the District's net assets as of June 30, 2006 and 2005, respectively.

	Net Assets		Percentage Change
	June 30, 2006	June 30, 2005	
Current Assets	15,050,502	9,089,193	65.59%
Capital Assets, Net	14,958,143	13,828,561	8.17%
Total Assets	30,008,645	22,917,754	30.94%
Current Liabilities	656,043	627,438	4.56%
Long-term debt outstanding	3,524,246	4,083,311	-13.69%
Total Liabilities	4,180,289	4,710,749	-11.26%
Net Assets:			
Invested in capital assets, net of related debt	11,037,563	9,440,954	16.91%
Restricted	11,712,917	6,507,208	80.00%
Unrestricted	3,077,876	2,258,843	36.26%
Total Net Assets	25,828,356	18,207,005	41.86%

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

- The principal retirement of \$ 525,366 of long-term debt.

Changes in net assets. The District's total revenues for the fiscal year ended June 20, 2006 were \$ 34,347,058. The total cost of all programs and services was \$ 26,725,707. The following table presents a summary of the changes in net assets for the fiscal years ending June 30, 2006 and 2005 respectively.

**PETAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Change in Net Assets</u>		Percentage Change
	<u>June 30, 2006</u>	<u>June 30, 2005</u>	
Revenues:			
Program Revenues:			
Charges for Services	\$ 875,251	\$ 880,702	-0.62%
Operating grants and contributions	8,457,739	4,585,350	84.45%
General revenues:			
Property taxes	6,614,784	6,073,001	8.92%
Grants and contributions not restricted	16,114,271	14,915,994	8.03%
Other	2,285,013	598,148	282.01%
Total revenues	<u>34,347,058</u>	<u>27,053,195</u>	<u>26.96%</u>
Expenses:			
Instruction	15,377,335	14,626,433	5.13%
Support Services	9,138,179	7,952,573	14.91%
Non-instructional	2,013,003	2,042,943	-1.47%
Sixteenth Section	690	3,149	-78.09%
Interest and other expense on long-term liabilities	196,500	224,976	-12.66%
Total expenses	<u>26,725,707</u>	<u>24,850,074</u>	<u>7.55%</u>
Increase (Decrease) in net assets	<u>7,621,351</u>	<u>2,203,121</u>	<u>245.93%</u>
Net Assets, July 1	<u>18,207,005</u>	<u>16,003,884</u>	<u>13.77%</u>
Net Assets, June 30	<u>\$ 25,828,356</u>	<u>\$ 18,207,005</u>	<u>41.86%</u>

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 for fiscal years ending June 30, 2006 and 2005, respectively. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and District's taxpayers by each of these functions.

	<u>2006</u>		<u>2005</u>	
	<u>Total Expenses</u>	<u>Net(Expense) Revenue</u>	<u>Total Expenses</u>	<u>Net(Expense) Revenue</u>
Instruction	\$ 15,377,335	\$ (10,642,154)	\$ 14,626,433	\$ (12,322,375)
Support Services	9,138,179	(6,888,991)	7,952,573	(6,894,436)
Non-instructional	2,013,003	335,618	2,042,943	60,914
Sixteenth Section	690	(690)	3,149	(3,149)
Interest and other expenses on long-term liabilities	196,500	(196,500)	224,976	(224,976)
Total expenses	<u>\$ 26,725,707</u>	<u>\$ (17,392,717)</u>	<u>\$ 24,850,074</u>	<u>\$ (19,384,022)</u>

**PETAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006**

- Net cost of governmental activities (\$ 17,392,717) was financed by general revenue, which is made up of primarily property taxes \$ 6,614,784 and state revenue \$ 16,045,781.
- Investment earnings accounted for \$ 377,740 of funding.

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 \$ 14,969,288, an increase of \$ 5,980,677 due primarily to an anticipated decrease or shortfall in state funding that did not occur. \$ 13,669,502 or 91 % 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 \$ 1,299,786 or 9 % 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 (decrease) in fund balance in the General Fund for the fiscal year was \$ 634,099 as a result of additional state revenues. The fund balance of Other Governmental Funds showed an increase due primarily to operating transfers in.

BUDGETARY HIGHLIGHTS

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

- Budget amounts for revenue from state sources was 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.
- Budgeted amounts for facilities acquisition and construction expenditures were not expended because the year was spent repairing damage sustained during Hurricane Katrina. These repairs were funded through the use of federal disaster relief funds and insurance recovery funds.

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.

**PETAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2006, the District's total capital assets were \$ 22,910,458, including land, school buildings, busses, other school vehicles and furniture and equipment. This amount represents an increase of \$ 1,604,798 from the previous year. Total accumulated depreciation as of June 30, 2006 was \$ 7,952,315 and total depreciation expense for the year was \$ 575,561, resulting in total net assets of \$ 14,958,143.

	Capital Assets, Net of Depreciation		Percentage Change
	2006	2005	
Land	1,366,385	927,770	47%
Buildings	12,173,943	11,594,329	5%
Improvements other than buildings	498,697	495,202	1%
Mobile equipment	487,285	357,403	36%
Furniture and equipment	431,833	453,857	-5%
Total	14,958,143	13,828,561	8%

Additional information of the District's capital assets can be found in Note 5 on pages 27- 28 of this report.

Debt Administration. At June 30, 2006, the District had \$ 4,039,940 in general obligation bonds and other long-term debt outstanding, of which \$ 494,166 is due within one year.

	Outstanding Debt		Percentage Change
	2006	2005	
General obligation bonds payable	3,450,000	3,640,000	-5%
Certificates of participation payable	115,000	225,000	-49%
Three mill notes payable	265,000	390,000	-32%
Transportation notes payable	90,580	132,607	-32%
Shortfall notes payable	-	58,309	-100%
Compensated absences payable	119,360	162,731	-27%
Total	4,039,940	4,608,647	-12%

The District maintains a AAA bond rating with Standard & Poor's.

Additional information of the District's long-term debt can be found in Note 6 on page 29 of this report.

CURRENT ISSUES

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

**PETAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006**

The Petal School District passed and issued a \$ 9 million dollar bond issue in fiscal year 2006-2007. Many of the funds set aside during fiscal year 2005-2006 were for the purpose of an extensive building program that is to begin in fiscal year 2006-2007.

The District has committed itself to financial excellence for many years. The millage has not increased in the past four years. In addition, the District system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

Latest enrollment figures indicate that student enrollment in the District will increase. The budget for the next fiscal year has taken into account this increase in both funding and staffing needs.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Petal School District, P. O. Box 523, Petal, MS 39465

BASIC FINANCIAL STATEMENTS

PETAL SCHOOL DISTRICT
Statement of Net Assets
June 30, 2006

Exhibit A

	<u>Governmental Activities</u>
Assets:	
Cash and cash equivalents	\$ 12,253,192
Cash with fiscal agents	114,526
Due from other governments	2,472,800
Inventories and prepaid items	146,091
Restricted assets	63,893
Capital assets, not being depreciated:	
Land	1,366,385
Capital assets, net of accumulated depreciation:	
Buildings	12,173,943
Improvements other than buildings	498,697
Mobile equipment	487,285
Furniture and equipment	431,833
Total Assets	<u>30,008,645</u>
Liabilities:	
Accounts payable and accrued liabilities	81,214
Interest payable on long-term liabilities	59,135
Long-term liabilities, due within one year:	
Capital related liabilities	494,166
Non-capital related liabilities	21,528
Long-term liabilities, due beyond one year:	
Capital related liabilities	3,426,414
Non-capital related liabilities	97,832
Total Liabilities	<u>4,180,289</u>
Net Assets:	
Investments in capital assets, net of related debt	11,037,563
Restricted net assets:	
Expendable:	
School-based activities	1,867,700
Debt service	267,598
Capital improvements	9,080,809
Forestry improvements	33,254
Unemployment benefits	69,512
Non-expendable:	
Sixteenth section	394,044
Unrestricted	3,077,876
Total Net Assets	<u>25,828,356</u>
Total Liabilities and Net Assets	<u>\$ 30,008,645</u>

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

PETAL SCHOOL DISTRICT
 Balance Sheet - Governmental Funds
 June 30, 2006

Exhibit C

	Major Funds					Total Governmental Funds
	General Fund	Restart School Grant Fund	Hurricane Expense Fund	Building Project Fund	Other Governmental Funds	
ASSETS						
Cash and cash equivalents	\$ 1,243,845			9,080,809	1,992,431	\$ 12,317,085
Cash with fiscal agents					114,526	114,526
Due from other government	372,101	773,731	894,516		432,452	2,472,800
Due from other funds	1,723,259				20,448	1,743,706
Advance to other funds					330,152	330,152
Inventories and prepaid items	106,575				39,516	146,091
Total Assets	3,445,780	773,731	894,516	9,080,809	2,929,523	17,124,359
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities	64,449		459		16,306	81,214
Due to other funds		723,731	798,000		221,974	1,743,705
Advances from other funds	330,152					330,152
Total Liabilities	394,601	723,731	798,459	-	238,280	2,155,071
Fund Balances:						
Reserved for:						
Advances					330,152	330,152
Inventory	3,776				39,516	43,292
Prepaid items	102,799					102,799
Debt service					326,733	326,733
Unemployment benefits					69,512	69,512
Forestry improvement funds					33,254	33,254
Permanent funds					394,044	394,044
Unreserved:						
Undesignated, reported in:						
General Fund	2,944,604					2,944,604
Special Revenue funds		50,000			1,498,032	1,548,032
Capital projects funds			96,057	9,080,809		9,176,866
Total Fund Balances	3,051,179	50,000	96,057	9,080,809	2,691,243	14,969,288
Total Liabilities and Fund Balances	\$ 3,445,780	773,731	894,516	9,080,809	2,929,523	\$ 17,124,359

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

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

Exhibit C-1

	<u>Amount</u>
Total fund balance - governmental funds	\$ 14,969,288
Amount reported for governmental activities in the statement of net assets are different because:	
1. Capital assets are used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$ 7,952,315.	14,958,143
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(4,039,940)
3. Governmental funds recognize interest on long-term debt when it becomes due, however the Statement of Net Assets recognizes interest as it accrues.	(59,135)
Total net assets - governmental activities	<u>\$ 25,828,356</u>

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

Exhibit D

	Major Funds					Total Governmental Funds
	General Fund	Restart School Grant Fund	Hurricane Expense Fund	Building Project Fund	Other Governmental Funds	
Revenues:						
Local sources	\$ 7,152,932				834,979	\$ 7,987,911
State sources	16,030,367				1,079,773	17,110,140
Federal sources	70,490	2,784,429	133,232		4,473,719	7,461,870
Sixteenth section sources					87,522	87,522
Total Revenues	23,253,789	2,784,429	133,232	-	6,475,993	32,647,443
Expenditures:						
Instruction	10,504,259	1,920,880	782		2,904,731	15,330,652
Support services	6,218,311	813,549	1,669,989	47,500	1,136,096	9,885,445
Noninstructional services	69,674		62,810		2,244,517	2,377,001
Sixteenth section					690	690
Facilities acquisition and construction	25,842			14,958		40,800
Debt service:						
Principal	11,744				513,592	525,336
Interest	831				204,164	204,995
Other					1,461	1,461
Total Expenditures	16,830,661	2,734,429	1,733,581	62,458	7,005,251	28,366,380
Excess (deficiency) of revenues over expenditures	6,423,128	50,000	(1,600,349)	(62,458)	(529,258)	4,281,063
Other Financing Sources:						
Insurance loss recoveries	2,412		1,696,406			1,698,818
Sale of other property	796					796
Operating transfers in	3,076,541			5,000,000	842,202	8,918,743
Operating transfers out	(8,868,778)				(49,965)	(8,918,743)
Total Other Financing Sources (Uses)	(5,789,029)	-	1,696,406	5,000,000	792,237	1,699,614
Net change in fund balances	634,099	50,000	96,057	4,937,542	262,979	5,980,677
Fund Balances:						
July 1, 2005	2,413,304	-	-	4,143,267	2,430,520	8,987,091
Increase(Decrease) Reserve for inventory	3,776				(2,256)	1,520
June 30, 2006	\$ 3,051,179	50,000	96,057	9,080,809	2,691,243	\$ 14,969,288

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

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

Exhibit D-1

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ 5,980,677
Amounts reported for governmental activities in the Statement of Activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchase amounted to \$ 1,812,465 and the depreciation expense amounted to \$ (575,561).	1,236,904
2. Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	(16,565)
3. 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.	525,336
4. 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.	7,443
5. Gains and losses on the sale or disposals of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds.	(70,593)
6. Increase (decrease) in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are (decreased) increased in the Statements of Activities.	1,520
7. 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	(43,371)
Change in Net Assets of Governmental Activities	<u>\$ 7,621,351</u>

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

PETAL SCHOOL DISTRICT
Statement of Fiduciary Net Assets
June 30, 2006

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 1,294,190
Total Assets	<u><u>1,294,190</u></u>
Liabilities	
Accounts payable and accrued liabilities	1,265,033
Due to student clubs	29,157
Total Liabilities	<u><u>\$ 1,294,190</u></u>
Net Assets	
Total Net Assets	<u><u>-</u></u>

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

NOTES TO FINANCIAL STATEMENTS

PETAL SCHOOL DISTRICT

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

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

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

A. Financial Reporting Entity.

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

The Petal Schools Leasing Authority ("the Authority") as explained in the following paragraph is considered to be a blended component unit as determined by Section 2100 of the *Codification of Governmental Accounting and Financial Reporting Standards* and is included in the district's reporting entity.

The Authority is governed by a Petal Schools Leasing Authority member board which was appointed by the school district's governing board. Although it is legally separate from the school district, it is reported as if it is part of the primary government because its sole purpose is to provide financing for the renovation, improvement, construction, and equipping of certain school facilities. Therefore, all of the Authority's assets, liabilities, equity, revenues, expenditures and other financing sources and uses have been included in the government-wide financial statements of the school district (see Note 11).

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

PETAL SCHOOL DISTRICT

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

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

C. Measurement Focus and Basis of Accounting.

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

In the fund financial statements, governmental funds 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.

Building Project Fund – This fund is a capital project fund used to reserve local sources to be expended for capital projects and improvements.

Restart School Grant Fund – This fund is used to account for federal funds to be used for replacing losses of property and income as a result of Hurricane Katrina.

PETAL SCHOOL DISTRICT

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

Hurricane Expense Fund – This fund is used to account for insurance reimbursements for costs incurred to repair and replace damage from Hurricane Katrina.

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

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

FIDUCIARY FUNDS

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

D. Account Classifications.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting* as issued in 2005 by the Government Finance Officers Association and are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 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 financial institutions selected by the school board. State statutes specify how these depositories are to be selected.

PETAL SCHOOL DISTRICT

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

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.

Investments are reported at fair value.

H. Inventories and Prepaid Items.

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

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

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the both the government-wide and governmental fund financial statements.

I. Capital Assets.

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

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

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

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

PETAL SCHOOL DISTRICT

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

	<u>Capitalization Policy</u>	<u>Estimated Useful Life</u>
Land	-	-
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. In the government-wide Statement of Net Assets, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column. See Note 6 for details.

K. Interfund Transactions and Balances.

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

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

L. Equity Classifications.

Government-wide Financial Statements:

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

PETAL SCHOOL DISTRICT

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

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

Fund Financial Statements:

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

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

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

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

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

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

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

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

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

M. Property Taxes.

PETAL SCHOOL DISTRICT

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

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

N. Mississippi Adequate Education Program Revenues.

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

O. Compensated Absences.

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

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

(2) Changes in Accounting Standards.

As required, the Petal School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* for the current fiscal year. This Statement requires governments to evaluate major events effecting capital assets to determine whether they are impaired. Such events include physical damage, changes in legal or environmental factors, technology changes or obsolescence, changes in the manner or duration of use and construction stoppage. Appropriate note disclosures have been incorporated to comply with the requirements of this standard.

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

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

Deposits. The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the school district's deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State

PETAL SCHOOL DISTRICT

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

Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

Cash and Cash Equivalents.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds \$ 12,317,085, and \$ 1,294,190, respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and cash equivalents \$ 12,253,192 and Restricted Assets - \$ 63,893. The Restricted Assets of \$ 63,893 represent the cash balance of the sixteenth section principal fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$ 14,919,065.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages the risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2006, none of the district's bank balance of \$ 14,919,065 was exposed to custodial credit risk.

Cash With Fiscal Agents.

The carrying amount of school districts' cash with fiscal agents held by financial institutions was \$ 114,526.

(4) **Interfund Transactions and Balances.**

The following is a summary of interfund transactions and balances:

A. Due from / To Other Funds:

	<u>Due From</u>	<u>Due To</u>
Governmental Funds:		
General fund	\$ 1,723,259	-
Restart School Grant		723,731
Hurricane Expenses		798,000
Other governmental funds	<u>20,446</u>	<u>221,974</u>
Total Funds	<u><u>1,743,705</u></u>	<u><u>1,743,705</u></u>

PETAL SCHOOL DISTRICT

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

The purpose of interfund loans was to account for federal funds that were not received until after the year ending 6/30/2006.

B. Advances To / From Other Funds:

	<u>Advances To</u>	<u>Advances From</u>
Governmental Funds:		
General fund	\$ 330,152	-
Other governmental funds	<u>-</u>	<u>330,152</u>
Total Funds	<u>330,152</u>	<u>330,152</u>

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

Sixteenth section principal loans payable.

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

Year Ending June 30	Principal	Interest	Total
2007	20,786	831	21,617
2008	20,786	831	21,617
2009	20,786	831	21,617
2010	20,786	831	21,617
2011	20,786	831	21,617
2012-2016	91,930	3,835	95,765
2017-2021	83,930	3,355	87,285
2022-2024	50,362	667	51,029
Total	<u>\$ 330,152</u>	<u>\$ 12,012</u>	<u>\$ 342,164</u>

PETAL SCHOOL DISTRICT

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

C. Transfers In / Out:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
General fund	\$ 3,076,541	8,868,778
Building project fund	5,000,000	
Other governmental funds	842,202	49,965
Total Funds	<u>8,918,743</u>	<u>8,918,743</u>

The purpose of transfers in and transfers out was related to debt service payments and standard operations.

(5) Capital Assets.

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

PETAL SCHOOL DISTRICT

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

	<u>Balance</u> <u>7/1/2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Completed</u> <u>Construction</u>	<u>Adjustments</u>	<u>Balance</u> <u>6/30/2006</u>
<u>Non-depreciable capital</u>						
Land	\$ 927,770				438,615	\$ 1,366,385
Total non-depreciable	<u>927,770</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>438,615</u>	<u>1,366,385</u>
<u>Depreciable capital assets</u>						
Buildings	16,791,440	1,434,834	(93,885)		(438,615)	17,693,774
Improvements other than buildings	532,836	25,842				558,678
Mobile equipment	1,950,058	271,961	(38,700)			2,183,319
Furniture and equipment	1,103,556	79,828	(75,082)			1,108,302
Total depreciable capital	<u>20,377,890</u>	<u>1,812,465</u>	<u>(207,667)</u>	<u>-</u>	<u>(438,615)</u>	<u>21,544,073</u>
<u>Less accumulated:</u>						
Buildings	5,197,111	319,467	(28,697)		31,950	5,519,831
Improvements other than buildings	37,634	22,347				59,981
Mobile equipment	1,592,655	142,079	(38,700)			1,696,034
Furniture and equipment	649,699	91,668	(69,677)		4,779	676,469
Total accumulated depreciation	<u>7,477,099</u>	<u>575,561</u>	<u>(137,074)</u>	<u>-</u>	<u>36,729</u>	<u>7,952,315</u>
Total depreciable capital assets, net	<u>12,900,791</u>	<u>1,236,904</u>	<u>(70,593)</u>	<u>-</u>	<u>(475,344)</u>	<u>13,591,758</u>
Governmental activities capital assets, net	<u>\$ 13,828,561</u>	<u>1,236,904</u>	<u>(70,593)</u>	<u>-</u>	<u>(36,729)</u>	<u>\$ 14,958,143</u>

Depreciation expense was charged to the following governmental functions:

PETAL SCHOOL DISTRICT

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

	<u>Amount</u>
Instruction	\$ 34,359
Support Services	518,519
Non-instructional	22,683
	<u>\$ 575,561</u>
Total depreciation expense	

An adjustment was made to land and buildings to account for the cost of land that was included in the cost of a building.

(6) Long-term liabilities.

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

	Balance 7/1/2005	Additions	Reductions	Balance 6/30/2006	Amounts due within one year
A. Limited obligation bonds payable	\$ 3,640,000		(190,000)	3,450,000	\$ 205,000
B. Certificates of participation payable	225,000		(110,000)	115,000	115,000
C. Three mill - ten year notes payable	390,000		(125,000)	265,000	130,000
D. Transportation equipment loans payable	132,607		(42,027)	90,580	44,166
E. Shortfall notes payable	58,309		(58,309)	-	-
F. Compensated absences payable	162,731		(43,371)	119,360	
Total	<u>\$ 4,608,647</u>	<u>-</u>	<u>(568,707)</u>	<u>4,039,940</u>	<u>\$ 494,166</u>

A. 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:

PETAL SCHOOL DISTRICT

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
State aid capital improvement bonds, series 98	varies	02/25/1998	02/25/2017	4,720,000	3,450,000
Total				<u>\$ 4,720,000</u>	<u>\$ 3,450,000</u>

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	205,000	153,878	358,878
2008	215,000	141,847	356,847
2009	225,000	131,147	356,147
2010	230,000	121,050	351,050
2011	240,000	110,475	350,475
2012-2016	1,385,000	375,639	1,760,639
2017-2018	950,000	56,588	1,006,588
Total	<u>\$ 3,450,000</u>	<u>\$ 1,090,624</u>	<u>\$ 4,540,624</u>

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

B. Certificates of participation payable.

As more fully explained in Note 10, certificates of participation have been issued by the school district. Certificates of participation currently outstanding are as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Certificate of participation payable	varies	3/15/1993	11/15/2007	\$ 1,200,000	\$ 115,000
Total				<u>\$ 1,200,000</u>	<u>\$ 115,000</u>

PETAL SCHOOL DISTRICT

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

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

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	115,000	5,750	120,750
Total	<u>\$ 115,000</u>	<u>\$ 5,750</u>	<u>\$ 120,750</u>

This debt will be retired from the debt service fund.

C. Three mill – ten year 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>
Limited tax note	varies	6/30/1998	6/30/2008	\$ 1,270,000	\$ 265,000
Total				<u>\$ 1,270,000</u>	<u>\$ 265,000</u>

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

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	130,000	12,323	142,323
2008	135,000	6,277	141,277
Total	<u>\$ 265,000</u>	<u>\$ 18,600</u>	<u>\$ 283,600</u>

PETAL SCHOOL DISTRICT

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

This debt will be retired from the three mill debt service fund.

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 payable	5.09%	8/1/1997	8/1/2007	\$ 375,000	\$ 90,580
Total				<u>\$ 375,000</u>	<u>\$ 90,580</u>

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	44,166	4,611	48,777
2008	46,414	2,362	48,776
Total	<u>\$ 90,580</u>	<u>\$ 6,973</u>	<u>\$ 97,553</u>

This debt will be retired from the three mill debt service fund.

E. Shortfall notes payable.

This debt was retired during the current year.

F. Compensated absences payable.

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

(7) Defined Benefit Pension Plan.

PETAL SCHOOL DISTRICT

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

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 Employee's Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, Mississippi 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy. PERS members are required to contribute 7.25 % of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The current rate is 10.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2006, 2005, and 2004 were \$ 1,655,052, \$ 1,524,918 and \$1,321,659, respectively, which equaled the required contributions for each year.

(8) Sixteenth Section Lands.

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

Year Ending June 30	Amount
2007	38,844
2008	38,507
2009	38,499
2010	38,277
2011	38,277
2012-2016	168,252
2017-2021	161,520
2022-2026	161,520
2027-2031	158,950
<hr/>	
Total	\$ 842,646

(9) Subsequent Events.

In August 2006, the school district issued \$ 9,000,000 dollars in a general obligation bond issue for the construction of a new school and capital improvements.

PETAL SCHOOL DISTRICT

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

(10) Risk Management.

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

(11) Trust Certificates.

A trust agreement dated March 15, 1993, was executed by and between the school district and Bank of Mississippi of Jackson, Mississippi, as trustees.

The trust agreement authorized the issuance of trust certificates in the principal amount of \$1,200,000. Approximately \$ 1,180,000 was used to provide financing for the construction and renovation of school buildings and related facilities and equipment (the "project"); the remainder of approximately \$ 20,000 was used to pay the cost of issuance.

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

It is not anticipated the project will have sufficient value to satisfy the certificates in the event the school district defaults under the lease; therefore, the source of payment of the certificates is the responsibility of the school district. See Note 6 for details regarding the debt service requirements on the trust certificates.

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

REQUIRED SUPPLEMENTARY INFORMATION

PETAL SCHOOL DISTRICT
 Budgetary Comparison Schedule for the General Fund
 For the Year Ended June 30, 2006

Schedule 1

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	6,177,565	6,209,509	7,152,932	31,944	943,423
State sources	16,033,643	15,683,031	16,030,367	(350,612)	347,336
Federal sources	15,300	15,300	70,490	-	55,190
Total Revenues	22,226,508	21,907,840	23,253,789	(318,668)	1,345,949
Expenditures:					
Instruction	13,349,428	13,379,205	10,504,259	(29,777)	2,874,946
Support services	7,851,832	7,884,064	6,218,311	(32,232)	1,665,753
Noninstructional services	263,813	263,813	69,674	-	194,139
Facilities acquisition and construction	58,000	58,000	25,842	-	32,158
Debt service:					
Principal	28,617	28,617	11,744	-	16,873
Interest			831	-	(831)
Total Expenditures	21,551,690	21,613,699	16,830,661	(62,009)	4,783,038
Excess (deficiency) of revenues over expenditures	674,818	294,141	6,423,128	(380,877)	6,128,987
Other Financing Sources:					
Insurance loss recoveries			2,412	-	2,412
Sale of other property	1,000	1,000	796	-	(204)
Operating transfers in	3,601,116	3,076,541	3,076,541	(524,575)	-
Operating transfers out	(4,671,600)	(8,877,600)	(8,868,778)	(4,206,000)	8,822
Total Other Financing Sources (Uses)	(1,069,484)	(5,800,059)	(5,789,029)	(4,730,575)	11,030
Net change in fund balances	(394,668)	(5,505,918)	634,099	(5,111,252)	6,140,017
Fund Balances:					
July 1, 2005	2,760,055	2,824,287	2,413,304	64,232	(410,983)
Increase (Decrease) in reserve for inventory			3,776		
June 30, 2006	2,365,389	(2,681,631)	3,051,179	(5,047,020)	5,729,034

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

PETAL SCHOOL DISTRICT
 Budgetary Comparison Schedule for the Restart Grant Fund
 For the Year Ended June 30, 2006

Schedule 1

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	-	2,784,429	2,784,429	2,784,429	-
Total Revenues	-	2,784,429	2,784,429	2,784,429	-
Expenditures:					
Instruction	-	1,920,880	1,920,880	(1,920,880)	-
Support services	-	813,549	813,549	(813,549)	-
Total Expenditures	-	2,734,429	2,734,429	(2,734,429)	-
Excess (deficiency) of revenues over expenditures	-	50,000	50,000	50,000	-
Other Financing Sources:					
Total Other Financing Sources (Uses)	-	-	-	-	-
Net change in fund balances	-	50,000	50,000	50,000	-
Fund Balances:					
July 1, 2005	-	-	-	-	-
June 30, 2006	-	50,000	50,000	50,000	-

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

PETAL SCHOOL DISTRICT
 Budgetary Comparison Schedule for the Hurricane Expense Fund
 For the Year Ended June 30, 2006

Schedule 1

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	-	35,123	133,232	35,123	98,109
Total Revenues	-	35,123	133,232	35,123	98,109
Expenditures:					
Instruction	-	782	782	(782)	-
Support services	-	1,669,989	1,669,989	(1,669,989)	-
Noninstructional services	-	62,810	62,810	(62,810)	-
Total Expenditures	-	1,733,581	1,733,581	(1,733,581)	-
Excess (deficiency) of revenues over expenditures	-	(1,698,458)	(1,600,349)	(1,698,458)	98,109
Other Financing Sources:					
Insurance loss recoveries	-	1,696,406	1,696,406	1,696,406	-
Total Other Financing Sources (Uses)	-	1,696,406	1,696,406	1,696,406	-
Net change in fund balances	-	(2,052)	96,057	(2,052)	98,109
Fund Balances:					
July 1, 2005	-	-	-	-	-
June 30, 2006	-	(2,052)	96,057	(2,052)	98,109

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

PETAL SCHOOL DISTRICT

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

Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(2) Budget Amendments and Revisions.

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

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

<u>Federal Grantor / Pass-through Grantor / Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>		
Passed - through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	\$ 114,199
Child Nutrition Cluster:		
School breakfast program	10.553	315,889
National school lunch program	10.555	960,561
Summer food service program for children	10.559	27,477
Total child nutrition cluster		<u>1,303,927</u>
Fresh fruit and vegetable program	10.582	71,813
Total U.S. Department of Agriculture		<u>1,489,939</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal fund	32.XXX	3,543
Total Federal Communications Commission		<u>3,543</u>
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	682,251
Vocational education - basic grants to states	84.048	33,909
Safe and drug-free schools and communities national programs	84.184	25,749
Safe and drug-free schools and communities - state grants	84.186	24,988
Even start - state educational agencies	84.213	277,734
Carol M. White physical education program	84.215F	229,401
Eisenhower professional development state grants	84.281	127,937
Twenty-first century community learning centers	84.287	369,412
State grants for innovative programs	84.298	48,572
Education technology state grants	84.318	20,294
Teacher quality enhancement grants	84.336	1,000
Improving teacher quality - state grants	84.367	69,282
Hurricane education recovery	84.938	3,072,970
Total		<u>4,863,499</u>
Special education cluster:		
Special education - grants to states	84.027	831,591
Special education - preschool grants	84.173	47,406
Total		<u>878,997</u>
Total Passed-through Mississippi Department of Education		<u>5,862,496</u>
Total U.S. Department of Education		<u>5,862,496</u>
<u>U.S. Department of Health and Human Services</u>		
Passed-through Mississippi Department of Human Services:		
Medical assistance program	93.778	64,947
Total		<u>64,947</u>
Total U.S. Department of Health and Human Services		<u>64,947</u>
Total for All Federal Awards		<u>\$ 7,420,925</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 general purpose financial statements.
- 2) The expenditure amounts include transfers out.
- 3) The pass-through entities did not assign identification numbers to the school district.

SUPPLEMENTAL INFORMATION

Petal School District
 Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
 For the Year Ended June 30, 2006

Expenditures	Total	Instruction and Other			
		Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 19,601,685	15,624,371	1,142,770	1,250,358	2,664,287
Other	8,496,923	1,364,975	258,650	146,320	5,927,188
Total	28,378,919	16,989,346	1,401,420	1,396,678	8,591,475
Total number of students *		3,787			
Cost per student		\$ 7,494			2,269

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

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

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

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

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

* include the number of students reported on the ADA report submission for month 9, which is the final submission for the fiscal year include 100 and 200 range object codes on the "Salaries and fringe benefits" line; all other expenditures on the "Other" line

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

McDaniel CPA Firm
Certified Public Accountant / Financial Consultant

Scotty McDaniel, CPA

MEMBER
Mississippi Society
of Certified Public
Accountants

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

May 7, 2007

Superintendent and School Board
Petal School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Petal School District as of and for the year ended June 30, 2006, which collectively comprise the Petal School District's basic financial statements and have issued our report thereon dated May 7, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

McDaniel CPA Firm

130 Shadow Lake Drive - Hattiesburg, MS 39402
Tel : 601-296-1007 or 601-408-9378
Fax: 601-296-6477
Email: mccpafirm@gmail.com

Scotty McDaniel, CPA

MEMBER
Mississippi Society
of Certified Public
Accountants

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

May 7, 2007

Superintendent and School Board
Petal School District

Compliance

We have audited the compliance of the Petal 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, 2006. 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.

In our opinion, Petal School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the Petal 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 the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did not note any matters involving internal control over compliance and its operation that we consider to be a material weaknesses.

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

McDaniel CPA Firm

McDaniel CPA Firm
Certified Public Accountant / Financial Consultant

Scotty McDaniel, CPA

MEMBER
Mississippi Society
of Certified Public
Accountants

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

May 7, 2007

Superintendent and School Board
Petal School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Petal School District as of and for the year ended June 30, 2006, which collectively comprise Petal School District's basic financial statements and have issued our report thereon dated May 7, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$ 6,607 of classroom supply funds carried over from previous years.

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements did not disclose any instances of noncompliance with other state laws and regulations.

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

McDaniel CPA Firm

130 Shadow Lake Drive - Hattiesburg, MS 39402
Tel : 601-296-1007 or 601-408-9378
Fax: 601-296-6477
Email: mccpafirm@gmail.com

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PETAL SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006

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 general purpose financial statements: | no |
| 3. | Internal control over financial reporting: | |
| | a. Material weakness(es) identified? | no |
| | b. Reportable condition(s) identified that are not considered to be material weaknesses? | no |

Federal Awards:

- | | | |
|-----|---|-------------|
| 4. | Type of auditor's report issued on compliance for major federal programs: | unqualified |
| 5. | Internal Control over major programs: | |
| | a. Material weakness(es) identified? | no |
| | b. Reportable condition(s) identified that are not considered to be material weaknesses? | no |
| 6. | Any audit finding(s) reported as required by section ____ .510(a) of Circular A-133? | no |
| 7. | Federal programs identified as major programs: | |
| | a. Hurricane education recovery | |
| | CFDA #: 84.938 | |
| | b. Special education cluster | |
| | CFDA#: 84.027 | |
| | CFDA#: 84.173 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$ 300,000 |
| 9. | Auditee qualified as a low-risk auditee? | yes |
| 10. | Prior fiscal year audit finding(s) and questioned 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? | no |

Section 2: Financial Statement Findings

Reportable Conditions Not Considered to be Material Weaknesses.

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

Section 3: Federal Award Findings and Questioned Costs

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

AUDITEE'S SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

As required by Section ____315(b) of OMB Circular A-133, the Petal School District has prepared and hereby submits the following summary schedule of prior audit findings as of June 30, 2006:

<u>Finding</u>	<u>Status</u>
2005-1	Corrective action taken.