

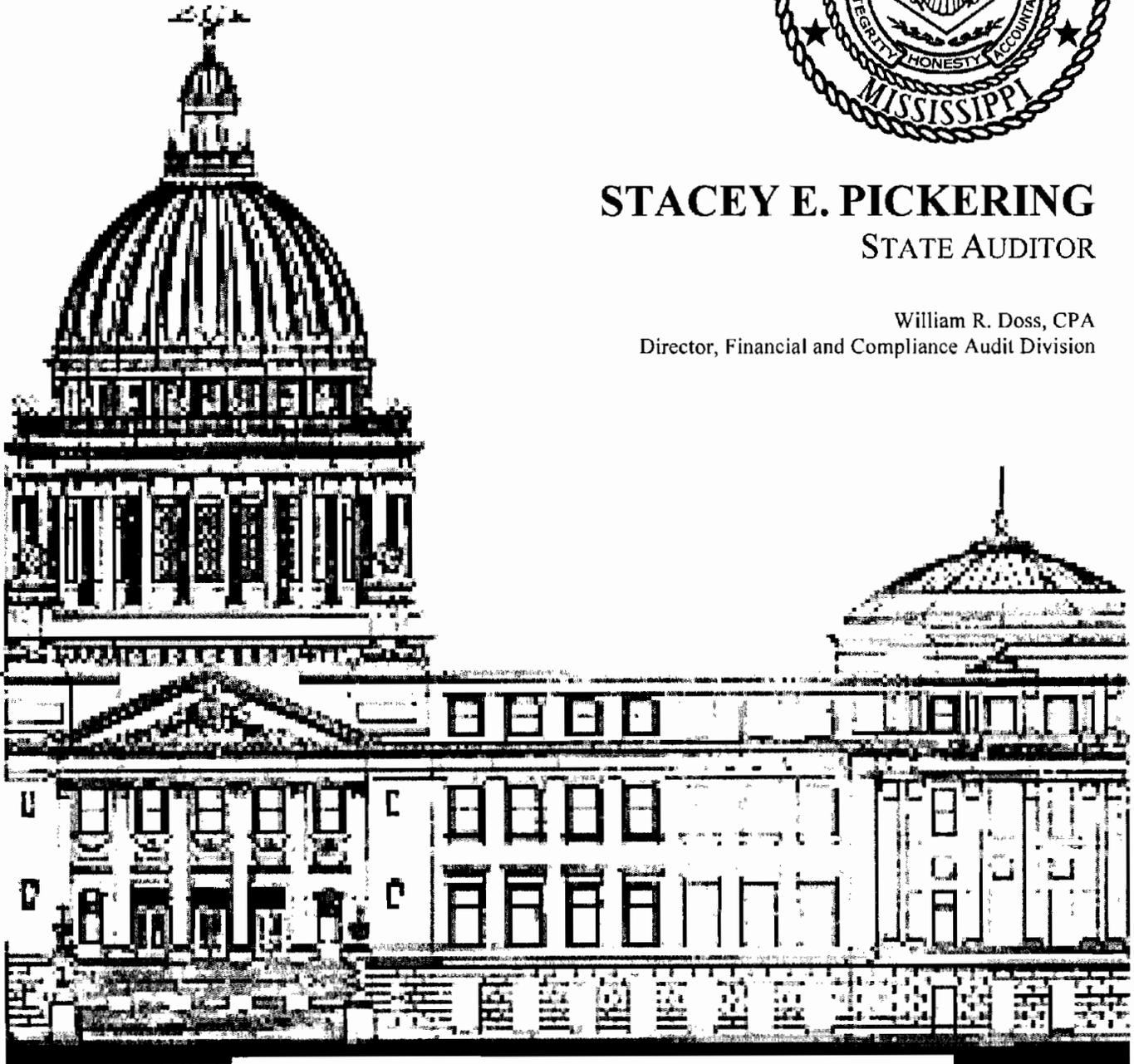
PICAYUNE SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2006



STACEY E. PICKERING
STATE AUDITOR

William R. Doss, CPA
Director, Financial and Compliance Audit Division



A Report from the Education Audit Section

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PICAYUNE SCHOOL DISTRICT

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PICAYUNE SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

PICAYUNE SCHOOL DISTRICT

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State of Mississippi

OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

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

Superintendent and School Board
Picayune School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Picayune School District as of and for the year ended June 30, 2006, which collectively comprise the Picayune School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Picayune 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 Picayune 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.

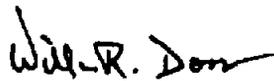
In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2008, on our consideration of the Picayune School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements 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 7 through 13 and the Budgetary Comparison Schedule and corresponding notes on pages 43 through 45 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 Picayune 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.



STACEY E. PICKERING
State Auditor



WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

March 14, 2008

PICAYUNE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

PICAYUNE SCHOOL DISTRICT

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

The discussion and analysis of Picayune 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 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.

FINANCIAL HIGHLIGHTS

- Total net assets, including the effect of prior period adjustments, increased \$6,771,504 which represents an approximate 105% increase from fiscal year 2005.
- General revenues account for \$23,993,346 in revenue, or 67% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$11,791,737 or 33% of total revenues.
- The District had \$28,967,177 in expenses; only \$11,791,737 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$23,993,346 were adequate to provide for these programs.
- Among major funds, the General Fund had \$22,470,142 in revenues, \$15,984,637 in expenditures and \$648,123 in other financing uses. The General Fund's fund balance, excluding the effect of prior period adjustments, increased by \$5,837,382 over the prior year.
- Capital assets, net of accumulated depreciation, increased by \$87,671.
- Long-term debt decreased by \$633,795, including the effect of adjustments.

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

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

serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

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

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

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

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

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 funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School Districts*. Information is presented separately in the governmental funds balance sheet and in the governmental funds 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.

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

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.

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.

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 major special revenue fund.

Additionally, a schedule of expenditures of federal awards is required by OMB Circular A-133 and a schedule of instructional, administrative and other expenditures for governmental funds can be found in 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 \$13,211,122 as of June 30, 2006.

By far the largest portion of the District's net assets (33%) 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 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 for the fiscal year ended June 30, 2006 and 2005, respectively.

	June 30, 2006	June 30, 2005	Total Dollar Variance	Total Percent Variance
Current Assets	\$ 10,827,655	\$ 4,527,489	\$6,300,166	139.15%
Capital Assets, net	8,078,508	7,990,837	87,671	1.10%
Total Assets	\$ 18,906,163	\$ 12,518,326	\$6,387,837	51.03%

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

Current Liabilities	1,812,746	1,562,618	250,128	16.01%
Long-term debt outstanding	3,882,295	4,516,090	(633,795)	-14.03%
Total Liabilities	5,695,041	6,078,708	(383,667)	-6.31%

Net Assets:

Invested in capital assets, net of related debt	4,821,789	3,648,729	1,173,060	3.21%
Restricted	1,798,237	880,613	917,624	104.20%
Unrestricted	6,591,096	1,910,276	4,680,820	245.03%
Total Net Assets	\$13,211,122	6,439,618	6,771,504	105.15%

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

- Increase in total current assets in the amount of \$6,300,166.
- Increase in net capital assets in the amount of \$87,671.
- Increase in current liabilities in the amount of \$250,128.
- Decrease in long-term debt in the amount of \$633,795.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2006, were \$35,785,083. The total cost of all programs and services was \$28,967,177. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2006 and 2005, respectively.

	June 30, 2006	June 30, 2005	Total Dollar Variance	Total Percent Variance
Revenues:				
Program Revenues				
Charges for services	\$703,375	\$966,606	(\$263,231)	-27.23%
Operating grants and contributions	10,608,444	5,768,851	4,839,593	83.89%
Capital grants and contributions	479,918	424,915	55,003	12.94%
General Revenues				
Property taxes	6,930,956	6,101,363	829,593	13.60%
Grants and contributions not restricted	15,926,782	14,511,230	1,415,552	9.75%
Other	1,135,608	826,877	308,731	37.34%
Total Revenues	\$35,785,083	28,599,842	7,185,241	25.12%
Expenses:				
Instruction	16,463,554	15,992,343	471,211	2.95%
Support Services	10,620,759	11,561,980	(941,221)	-8.14%
Non-instructional	1,703,705	1,606,095	97,610	6.08%
Sixteenth Section	33,391	33,819	(428)	-1.27%
Interest on long-term liabilities	145,768	127,489	18,279	14.33%
Total Expenses	28,967,177	29,321,726	(354,549)	-1.21%
Increase in Net Assets	6,817,906	(721,884)	7,539,790	1044.46%
Net Assets, July 1	6,439,618	7,161,494	(721,876)	-10.08%
prior period adjustments	(46,402)	8	(46,410)	580125.00%
Net Assets, June 30	\$13,211,122	\$6,439,618	\$6,771,504	105.15%

Governmental activities. The following table presents the cost of the District's five major functional activities: instruction, support services, non-instructional, sixteenth section, and interest on long-term debt for fiscal years ending June 30, 2006 and 2005, respectively. The table also shows

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

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.

	June 30, 2006		June 30, 2005	
	Total Expenses	Net (Expense) Revenue	Total Expenses	Net (Expense) Revenue
Instruction	\$ 16,463,554	\$ (8,256,562)	\$ 15,992,343	\$ (12,817,119)
Support Services	10,620,759	(8,787,245)	11,561,980	(9,196,835)
Non-instructional	1,703,705	47,526	1,606,095	13,908
Sixteenth Section	33,391	(33,391)	33,819	(33,819)
Interest on long term-liabilities	145,768	(145,768)	127,489	(127,489)
Total	\$ 28,967,177	\$ (17,175,440)	\$ 29,321,726	\$ (22,161,354)

- Net cost of governmental activities, \$17,175,440, was financed by general revenue, which is made up of primarily property taxes of \$6,930,956, state revenues of \$15,562,225, federal revenues of \$364,557, Sixteenth Section revenues of \$124,950 and other sources of \$876,381.
- Investment earnings accounted for \$134,277 of the 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 \$9,040,854 an increase of \$6,052,854, excluding the effects of prior period adjustments and increase in reserve for inventory, due primarily to Katrina Grants, Insurance recoveries, and sound fiscal management. \$8,522,464 or 94% 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 \$518,390 or 6% 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 excluding the effect of prior period adjustments for the fiscal year was \$5,837,382 a result of special revenue grants after Hurricane Katrina for Restart and Displaced students which enabled the district to pay expenses which would have normally been paid with general fund monies. The fund balance of Other Governmental Funds, excluding the effects of prior period adjustments and increase in reserve for inventory, showed an increase in the amount of \$215,472 due primarily to

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

an increase in grants and insurance loss recoveries from Hurricane Katrina. The major fund showed no increase (decrease) in fund balance of the other major funds was as follows:

<u>Major Fund</u>	<u>Increase (Decrease)</u>
Displaced Students	\$ (0)

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 decreased due primarily to school construction being delayed until the next fiscal year.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2006, the District's total capital assets were \$13,544,059, including school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$458,043 from the previous year. Total accumulated depreciation as of June 30, 2006, was \$5,465,551 and total depreciation expense for the year was \$462,314, resulting in total net assets of \$8,078,508.

Capital Assets, Net of Depreciation

	June 30, 2006	June 30, 2005	Total Dollar Variance	Total Percent Variance
Land	\$ 294,795	\$ 294,795	\$ -	0.00%
Construction in Progress				0.00%
Buildings	5,845,369	5,517,157	328,212	5.94%
Building Improvements	71,086	74,471	(3,385)	-4.54%
Improvements Other than Buildings	638,433	668,758	(30,325)	-4.53%
Mobile Equipment	914,305	1,018,802	(104,497)	10.26%
Furniture & Equipment	296,694	438,725	(142,031)	-32.37%
Leased Property under Capital Leases	17,826	(21,871)	39,697	181.51%
Total	\$ 8,078,508	\$ 7,990,837	\$87,671	1.10%

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

Debt Administration. At June 30, 2006, the District had \$3,882,295 in long-term debt outstanding, of which \$1,055,869 is due within one year. The district does not have a bond rating with any one bond rating agency. The Districts' bonds are non-rated. The district has never defaulted or been late with any debt payments

Outstanding Debt

	June 30, 2006	June 30, 2005	Total Dollar Variance	Total Percent Variance
General obligation bonds payable	\$ 750,000	1,485,000	(735,000)	(49.50%)
Three mill notes payable	1,450,000	1,500,000	(50,000)	(3.33%)
Transportation notes payable	0	25,607	(25,607)	(100.00%)
Shortfall notes payable	444,150	204,649	239,501	117.03%
Obligations under capital leases	15,217	126,852	(111,635)	(88.00%)
Obligations under energy efficiency lease	41,502	0	41,502	100.00%
Qualified zone academy bonds payable	1,000,000	1,000,000	0	00.00%
Compensated absences payable	181,426	173,982	7,444	4.28%
Total	\$ 3,882,295	\$ 4,516,090	\$ (633,795)	(14.03%)

CURRENT ISSUES

The Picayune School District is financially stable and is recovering well from Hurricane Katrina. The millage rate has not significantly changed over the past several years. The District is proud of its community support of the public schools.

The District has committed itself to financial excellence for many years. The District's system of financial planning, budgeting and internal financial control is 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 been steadily increasing after Hurricane Katrina's devastating effects. The budget for the next fiscal year has taken this into account.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Picayune School District, 706 Goodyear Boulevard, Picayune, Mississippi 39466.

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PICAYUNE SCHOOL DISTRICT

FINANCIAL STATEMENTS

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PICAYUNE SCHOOL DISTRICT
Statement of Net Assets
June 30, 2006

Exhibit A

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 7,916,007
Due from other governments	2,767,848
Inventories	25,055
Restricted assets	118,745
Capital assets, non-depreciable:	
Land	294,795
Capital assets, net of accumulated depreciation:	
Buildings	5,845,369
Building improvements	71,086
Improvements other than buildings	638,433
Mobile equipment	914,305
Furniture and equipment	296,694
Leased property under capital leases	17,826
	<u>18,906,163</u>
Total Assets	<u>18,906,163</u>
Liabilities	
Accounts payable and accrued liabilities	1,725,378
Unearned revenue	61,423
Interest payable on long-term liabilities	25,945
Long-term liabilities, due within one year	
Capital related liabilities	885,964
Non-capital related liabilities	169,905
Long-term liabilities, due beyond one year	
Capital related liabilities	2,370,755
Non-capital related liabilities	455,671
	<u>5,695,041</u>
Total Liabilities	<u>5,695,041</u>
Net Assets	
Invested in capital assets, net of related debt	4,821,789
Restricted net assets:	
Expendable:	
School-based activities	1,330,847
Debt service	304,942
Unemployment benefits	128,272
Non-expendable:	
Sixteenth section	34,176
Unrestricted	6,591,096
	<u>13,211,122</u>
Total Net Assets	<u>\$ 13,211,122</u>

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

PICAYUNE SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2006

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	\$ 16,463,554	394,596	7,332,478	479,918	(8,256,562)
Support services	10,620,759	124,892	1,708,622		(8,787,245)
Non-instructional	1,703,705	183,887	1,567,344		47,526
Sixteenth section	33,391				(33,391)
Interest on long-term liabilities	145,768				(145,768)
Total Governmental Activities	\$ 28,967,177	703,375	10,608,444	479,918	(17,175,440)
General Revenues:					
Taxes:					
					5,929,071
					1,001,885
Unrestricted grants and contributions:					
					15,562,225
					364,557
					134,277
					124,950
					876,381
					<u>23,993,346</u>
					<u>6,817,906</u>
					6,439,618
					<u>(46,402)</u>
					<u>6,393,216</u>
					<u>\$ 13,211,122</u>

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

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

Exhibit C

	Major Funds			
	General Fund	Displaced Students Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 5,686,499		2,229,508	7,916,007
Cash with fiscal agents			1,569	1,569
Investments			117,176	117,176
Due from other governments	648,069	1,381,003	738,776	2,767,848
Due from other funds	2,189,982	42,586	42,586	2,275,154
Inventories			25,055	25,055
Total Assets	\$ 8,524,550	1,423,589	3,154,670	13,102,809
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 1,307,878		417,500	1,725,378
Due to other funds		1,423,589	851,565	2,275,154
Unearned revenue			61,423	61,423
Total Liabilities	1,307,878	1,423,589	1,330,488	4,061,955
Fund Balances:				
Reserved for:				
Inventory			25,055	25,055
Debt service			330,887	330,887
Unemployment benefits			128,272	128,272
Permanent fund purposes			34,176	34,176
Unreserved:				
Undesignated, reported in:				
General Fund	7,216,672			7,216,672
Special Revenue Funds			1,219,556	1,219,556
Capital Projects Funds			86,236	86,236
Total Fund Balances	7,216,672	0	1,824,182	9,040,854
Total Liabilities and Fund Balances	\$ 8,524,550	1,423,589	3,154,670	13,102,809

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

PICAYUNE 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	\$ 9,040,854
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 \$5,465,551.	8,078,508
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(3,882,295)
3. Governmental funds recognize interest on long-term debt when it becomes due, however the Statement of Net Assets recognizes interest as it accrues.	<u>(25,945)</u>
Total Net Assets - Governmental Activities	<u>\$ 13,211,122</u>

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

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2006

	Major Funds		Other	Total
	General Fund	Displaced Students Fund	Governmental Funds	Governmental Funds
Revenues:				
Local sources	\$ 6,593,042		1,620,287	8,213,329
State sources	15,719,452		710,004	16,429,456
Federal sources	157,648	1,959,902	8,468,138	10,585,688
Sixteenth section sources			133,242	133,242
Total Revenues	22,470,142	1,959,902	10,931,671	35,361,715
Expenditures:				
Instruction	8,269,628	1,885,826	6,162,006	16,317,460
Support services	7,614,458	74,076	2,747,922	10,436,456
Noninstructional services			1,673,211	1,673,211
Sixteenth section			33,391	33,391
Facilities acquisition and construction			479,918	479,918
Debt service:				
Principal	95,026		850,663	945,689
Interest	5,525		144,243	149,768
Other			1,500	1,500
Total Expenditures	15,984,637	1,959,902	12,092,854	30,037,393
Excess (Deficiency) of Revenues over Expenditures	6,485,505	0	(1,161,183)	5,324,322
Other Financing Sources (Uses):				
Proceeds of loans	305,164			305,164
Insurance loss recoveries	10,307		397,660	407,967
Sale of transportation equipment	15,401			15,401
Operating transfers in			1,100,330	1,100,330
Operating transfers out	(978,995)		(121,335)	(1,100,330)
Total Other Financing Sources (Uses)	(648,123)	0	1,376,655	728,532
Net Change in Fund Balances	5,837,382	0	215,472	6,052,854
Fund Balances:				
July 1, 2005	1,350,986		1,645,330	2,996,316
Prior period adjustments	28,304		(47,378)	(19,074)
July 1, 2005, as restated	1,379,290	0	1,597,952	2,977,242
Increase in reserve for inventory	0	0	10,758	10,758
June 30, 2006	\$ 7,216,672	0	1,824,182	9,040,854

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

PICAYUNE 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, 2006

Exhibit D-1

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ 6,052,854
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 purchased amounted to \$598,084, and the depreciation expense amounted to \$462,314.	135,770
2. The issuance of long-term debt provides current financial resources to governmental funds, but the issuance increases long-term liabilities in the Statement of Net Assets.	(305,164)
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.	945,689
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.	5,500
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.	(20,057)
6. Increase in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are increased in the Statement of Activities.	10,758
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	<u>(7,444)</u>
Change in Net Assets of Governmental Activities	<u>\$ 6,817,906</u>

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

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

Exhibit E

	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash and cash equivalents	\$ 63,838	197,159
Investments	<u>17,627</u>	<u> </u>
Total Assets	\$ <u>81,465</u>	<u>197,159</u>
Liabilities		
Accounts payable and accrued liabilities	\$	20,996
Due to other governments		113,192
Due to student clubs		<u>62,971</u>
Total Liabilities	\$ <u>0</u>	<u>197,159</u>
Net Assets		
Reserved for endowments	<u>\$ 81,465</u>	
Total Net Assets	\$ <u>81,465</u>	

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

PICAYUNE SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets
June 30, 2006

Exhibit F

		<u>Private-Purpose Trust Funds</u>
Additions		
Interest on investments	\$	1,593
Contributions and donations from private sources		<u>3,750</u>
Total Additions		<u>5,343</u>
Deductions		
Scholarships awarded		<u>5,200</u>
Total Deductions		<u>5,200</u>
Change in Net Assets		<u>143</u>
Net Assets		
July 1, 2005		<u>81,322</u>
June 30, 2006	\$	<u><u>81,465</u></u>

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

PICAYUNE 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 Picayune 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 statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

PICAYUNE SCHOOL DISTRICT

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

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.

Displaced Students Fund - This fund represents a federal grant to help assist the district with the cost of educating students which were displaced by either Hurricanes Katrina or Rita.

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.

PICAYUNE SCHOOL DISTRICT

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

FIDUCIARY FUNDS

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

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

D. Account Classifications.

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

E. Encumbrances.

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

F. Cash and Cash Equivalents.

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

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

G. Investments.

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

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

Investments are reported at fair value.

H. Inventories 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.

PICAYUNE SCHOOL DISTRICT

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

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.

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.

	<u>Capitalization Policy</u>	<u>Estimated 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 4 for details.

J. Long-term Liabilities.

Long-term liabilities are the unmatured principal of bonds, warrants, notes, or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments. In the government-wide Statement of Net Assets, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column. See Note 5 for details.

K. Interfund Transactions and Balances.

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

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

PICAYUNE SCHOOL DISTRICT

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

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 3 for details for interfund transactions, including receivables and payables at year-end.

L. Equity Classifications.

Government-wide Financial Statements:

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

1. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowing that are attributable to the acquisition, construction 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 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 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 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.

PICAYUNE SCHOOL DISTRICT

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

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.

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) Cash and Cash Equivalents, Cash with Fiscal Agents, and Investments.

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

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

PICAYUNE SCHOOL DISTRICT

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

Investments. Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to invest surplus funds in the types of investments authorized by Section 27-105-33(d) and (e), Miss. Code Ann. (1972). This section permits the following types of investments: (a) certificates of deposits and interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, the principal and interest of which are fully guaranteed by the government or enumerated agency of the United States; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or interest in, and open-end or closed-end any management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration. Investment income on bond funds (Capital Projects), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Amounts less than \$100 can be credited to the General Fund.

Cash and Cash Equivalents.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$7,916,007 and \$260,997, respectively. The carrying amount of deposits reported in the government-wide financial statements was: cash and cash equivalents - \$7,916,007 and restricted assets - \$118,745. The restricted assets of \$118,745 represent the cash and investments of the QZAB Debt Service Fund of \$1,569 and \$83,000, respectively, and the investments of the sixteenth section principal fund (Permanent Fund) of \$34,176, which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$9,049,426.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial 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 \$9,049,426 was exposed to custodial credit risk.

Cash with Fiscal Agents.

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$1,569.

Investments.

As of June 30, 2006, the district had the following investments:

<u>Investment Type</u>	<u>Maturities (in years)</u>	<u>Fair Value</u>	<u>Rating</u>
Federal National Mortgage Association Certificates of deposit (nonnegotiable):	Less than 1	\$ <u>83,000</u>	Not Rated
Government Funds	1	34,176	Not Rated
Private-purpose Trust Funds	1 ½ to 5	<u>17,627</u>	Not Rated
		<u>51,803</u>	
Total Investments		\$ <u><u>134,803</u></u>	

PICAYUNE SCHOOL DISTRICT

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

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

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

Custodial Credit Risk - Investments. Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk. As of June 30, 2006, the district did not have any investments to which this would apply.

Concentration of Credit Risk. Disclosures of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2006, the district had the following investments which comprised more than 5 percent of net investments:

<u>Issuer</u>	<u>Fair Value</u>	<u>Percentage</u>
Federal National Mortgage Association	\$ 83,000	62%

(3) 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	\$ 2,189,982	
Displaced Students Fund	42,586	1,423,589
Other governmental funds	42,586	851,565
Total	<u>\$ 2,275,154</u>	<u>2,275,154</u>

Transactions are mainly due to timing differences between when a restricted Special Revenue Fund has expended monies, requested reimbursement but has not yet received the reimbursement. The General Fund then loans the money temporarily until the reimbursement has been received.

B. Transfers In/Out.

	<u>Transfer In</u>	<u>Transfers Out</u>
Governmental Funds:		
General Fund	\$ 0	978,995
Other governmental funds	1,100,330	121,335
Total	<u>\$ 1,100,330</u>	<u>1,100,330</u>

Transfers in/out were mainly for support of the Navy Junior ROTC and Vocational Education.

PICAYUNE SCHOOL DISTRICT

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

(4) Capital Assets.

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

	Balance 7-1-2005	Additions	Retirements	Completed Construction	Adjustments	Balance 6-30-2006
<u>Non-depreciable capital assets:</u>						
Land	\$ 294,795					294,795
Total non-depreciable capital assets	<u>294,795</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>294,795</u>
<u>Depreciable capital assets:</u>						
Buildings	8,396,453	479,918				8,876,371
Building improvements	84,626					84,626
Improvements other than buildings	758,126					758,126
Mobile equipment	2,607,089	56,737	73,778			2,590,048
Furniture and equipment	915,908	61,429	66,263			911,074
Leased property under capital leases	29,019					29,019
Total depreciable capital assets	<u>12,791,221</u>	<u>598,084</u>	<u>140,041</u>	<u>0</u>	<u>0</u>	<u>13,249,264</u>
<u>Less accumulated depreciation for:</u>						
Buildings	2,879,296	151,706				3,031,002
Building improvements	10,155	3,385				13,540
Improvements other than buildings	89,368	30,325				119,693
Mobile equipment	1,588,287	149,707	60,105		(2,146)	1,675,743
Furniture and equipment	477,183	123,460	59,879		73,616	614,380
Leased property under capital leases	50,890	3,731			(43,428)	11,193
Total accumulated depreciation	<u>5,095,179</u>	<u>462,314</u>	<u>119,984</u>	<u>0</u>	<u>28,042</u>	<u>5,465,551</u>
Total depreciable capital assets, net	<u>7,696,042</u>	<u>135,770</u>	<u>20,057</u>	<u>0</u>	<u>(28,042)</u>	<u>7,783,713</u>
Governmental activities capital assets, net	<u>\$ 7,990,837</u>	<u>135,770</u>	<u>20,057</u>	<u>0</u>	<u>(28,042)</u>	<u>8,078,508</u>

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 166,560
Support services	241,502
Non-instructional	<u>54,252</u>
Total Depreciation Expense	<u>\$ 462,314</u>

PICAYUNE SCHOOL DISTRICT

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

(5) Long-term Liabilities.

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

	Balance				Amounts due	
	7-1-2005	Additions	Reductions	Adjustments	Balance 6-30-2006	within one year
A. General obligation bonds payable	\$ 1,485,000		735,000		750,000	750,000
B. Three mill notes payable	1,500,000		50,000		1,450,000	87,000
C. Transportation equipment loans payable	25,607		25,607		0	
D. Shortfall notes payable	204,649	305,164	65,663		444,150	169,905
E. Obligations under capital leases	126,852		6,533	(105,102)	15,217	7,462
F. Obligations under energy efficiency lease			62,886	104,388	41,502	41,502
G. Qualified zone academy bonds payable	1,000,000				1,000,000	
H. Compensated absences payable	173,982	7,444			181,426	
Total	\$ 4,516,090	312,608	945,689	(714)	3,882,295	1,055,869

A. General obligation bonds payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General obligation bonds, Series 2002	Varies	03-01-2002	05-01-2007	\$ 3,660,000	750,000
Total				\$ 3,660,000	750,000

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

	Year Ending		
	June 30	Principal	Interest
2007	\$ 750,000	27,750	777,750
Total	\$ 750,000	27,750	777,750

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, 2006, the amount of outstanding bonded indebtedness was equal to 2.82% of property assessments as of October 1, 2005. This debt will be retired from the General Obligation Bond Refunding Fund.

PICAYUNE SCHOOL DISTRICT

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

B. 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 note	2.7-4.2 %	08-01-2004	08-01-2018	\$ 1,500,000	1,450,000
Total				\$ <u>1,500,000</u>	<u>1,450,000</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	\$ 87,000	53,623	140,623
2008	91,000	50,996	141,996
2009	95,000	48,040	143,040
2010	99,000	44,741	143,741
2011	104,000	41,136	145,136
2012 - 2016	597,000	140,555	737,555
2017 - 2021	<u>377,000</u>	<u>22,014</u>	<u>399,014</u>
Total	\$ <u>1,450,000</u>	<u>401,105</u>	<u>1,851,105</u>

This debt will be retired from the Three Mill Note Retirement Fund.

C. Transportation equipment loans payable.

This debt was retired during the fiscal year.

D. Shortfall 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>
2004 shortfall note	3.84%	11-09-2004	11-09-2007	\$ 204,649	138,986
2005 shortfall note	4.98%	09-19-2005	09-19-2008	<u>305,164</u>	<u>305,164</u>
Total				\$ <u>509,813</u>	<u>444,150</u>

PICAYUNE 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 June 30	Principal	Interest	Total
2007	\$ 169,905	20,534	190,439
2008	172,523	12,850	185,373
2009	101,722	5,080	106,802
Total	\$ <u>444,150</u>	<u>38,464</u>	<u>482,614</u>

This debt will be retired from the Shortfall Note Retirement Fund.

E. Obligations under capital lease.

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 a mower.

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

1. Upon payment of the lease in full, title to the equipment will be vested permanently in the school district's name, which will fulfill the purchase option price.
2. Prior to fulfillment of lease term, the school district may exercise the option to purchase the equipment by giving a thirty-day notice and payment of the related purchase option price.

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

Year Ending June 30	Principal	Interest and Maintenance Charges	Total
2007	\$ 7,462	459	7,921
2008	7,755	167	7,922
Total	\$ <u>15,217</u>	<u>626</u>	<u>15,843</u>

This debt will be retired from the District Maintenance Fund.

F. Obligations under energy efficiency lease.

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

Year Ending June 30	Principal	Interest and Maintenance Charges	Total
2007	\$ 41,502	676	42,178
Total	\$ <u>41,502</u>	<u>676</u>	<u>42,178</u>

PICAYUNE SCHOOL DISTRICT

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

An energy efficiency lease agreement dated February 2000, was executed by and between the district, the lessee, and Mississippi Power, the lessor.

The agreement authorized the borrowing of \$428,165 for the purchase of energy efficiency equipment, machinery, supplies building modifications and other energy saving items. Payments of the lease shall be made from the District Maintenance Fund (General Fund) and not exceed ten (10) years.

The district entered into this energy efficiency lease agreement under the authority of Section 31-7-14, Miss. Code Ann. (1972).

Upon written notice to the lessor, the lessee has the option of repaying the total amount due as set forth by the agreement.

G. Qualified zone academy bonds payable.

As more fully explained in Note 11, debt has been issued by the school district that qualifies as Qualified Zone Academy bonds. Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
QZAB, Series 2004	0%	08-12-2004	07-30-2014	\$ 1,000,000	1,000,000
Total				\$ 1,000,000	1,000,000

H. 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.

(6) Defined Benefit Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer rate for fiscal year ended June 30, 2006 was 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 \$1,855,043 \$1,616,147 and \$1,534,874, respectively, which equaled the required contributions for each year.

PICAYUNE SCHOOL DISTRICT

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

(7) Other Commitments.

Operating leases:

The school district has several operating leases for the following:

1. Postage meter at Central Office
2. Postage meter at Picayune Memorial High School.
3. Postage meter at Picayune Junior High.
4. Postage meter at Roseland Park Elementary School.

Lease expenditures for the year ended June 30, 2006, amounted to \$4,087. Future lease payments for these leases are as follows:

Year Ending June 30	Amount
2007	\$ 3,479
2008	2,547
2009	<u>112</u>
Total	<u>\$ 6,138</u>

(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	\$ 103,550
2008	103,550
2009	103,550
2010	79,050
2011	79,050
2012 - 2016	394,077
2017 - 2021	384,715
2022 - 2026	384,715
2027 - 2031	369,526
Thereafter	<u>464,425</u>
Total	<u>\$ 2,466,208</u>

PICAYUNE SCHOOL DISTRICT

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

(9) 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. Prior year accounts receivable not received.	\$ (16,319)
2. Prior year posting to set up a liability was posted as a receivable.	(17,230)
3. Adjustment to correct capital assets.	(28,042)
4. Adjustment to correct long-term debt.	714
5. Prior year General Fund accounts set up as Fiduciary Funds.	<u>14,475</u>
Total	\$ <u><u>(46,402)</u></u>

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

<u>Major Funds</u>	<u>Explanations</u>	<u>Amount</u>
General Fund	Reclassification of Agency Fund to General Fund.	\$ 14,475
General Fund	Reclassification of Special Revenue Fund to General Fund.	13,829
Other governmental funds	Reclassification of Special Revenue Fund to General Fund.	(13,829)
Other governmental funds	Accounts receivable not collected.	<u>(33,549)</u>
	Total	\$ <u><u>(19,074)</u></u>

(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) Qualified Zone Academy Bonds.

Section 226 of the Taxpayer Relief Act of 1997 (Public Law 105-34) provides for a source of capital at no or nominal interest rates for costs incurred by certain public schools in connection with the establishment of special academic programs from kindergarten through secondary school, in partnership with the business community. The school district, in agreement with Trustmark National Bank, has entered into such an arrangement dated January 15, 2005.

PICAYUNE SCHOOL DISTRICT

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

This agreement establishes a method of repayment for a qualified interest-free debt instrument. The agreement requires the school district to deposit funds annually into a sinking fund account on or before October 16 of each year for ten years with Trustmark National Bank. The amount accumulated in the sinking fund at the end of the ten-year period will be sufficient to retire the debt. The following schedule reports the yearly deposits to be made to the sinking fund by the school district.

<u>Year Ending</u> <u>June 30</u>		<u>Amount</u>
2007	\$	80,690
2008		80,690
2009		80,690
2010		80,690
2011		80,690
2012 - 2016		<u>322,760</u>
Total	\$	<u><u>726,210</u></u>

PICAYUNE SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

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

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 6,246,612	6,333,587	6,593,042	86,975	259,455
State sources	15,680,660	15,578,978	15,719,452	(101,682)	140,474
Federal sources	100,000	157,648	157,648	57,648	
Total Revenues	<u>22,027,272</u>	<u>22,070,213</u>	<u>22,470,142</u>	<u>42,941</u>	<u>399,929</u>
Expenditures:					
Instruction	12,369,073	8,187,798	8,269,628	4,181,275	(81,830)
Support services	8,673,537	7,613,892	7,614,458	1,059,645	(566)
Debt service:					
Principal	916,913	95,026	95,026	821,887	
Interest	21,813	5,525	5,525	16,288	
Total Expenditures	<u>21,981,336</u>	<u>15,902,241</u>	<u>15,984,637</u>	<u>6,079,095</u>	<u>(82,396)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>45,936</u>	<u>6,167,972</u>	<u>6,485,505</u>	<u>6,122,036</u>	<u>317,533</u>
Other Financing Sources (Uses):					
Proceeds of loans	750,000	305,164	305,164	(444,836)	
Insurance loss recoveries		10,307	10,307	10,307	
Sale of transportation equipment		15,401	15,401	15,401	
Operating transfers in	2,600,000	2,922,664		322,664	(2,922,664)
Operating transfers out	(3,555,000)	(3,905,829)	(978,995)	(350,829)	2,926,834
Total Other Financing Sources (Uses)	<u>(205,000)</u>	<u>(652,293)</u>	<u>(648,123)</u>	<u>(447,293)</u>	<u>4,170</u>
Net Change in Fund Balances	<u>(159,064)</u>	<u>5,515,679</u>	<u>5,837,382</u>	<u>5,674,743</u>	<u>321,703</u>
Fund Balances:					
July 1, 2005	1,230,000	1,350,986	1,350,986	120,986	
Prior period adjustments		13,829	28,304	13,829	14,475
July 1, 2005, as restated	<u>1,230,000</u>	<u>1,364,815</u>	<u>1,379,290</u>	<u>134,815</u>	<u>14,475</u>
June 30, 2006	\$ <u>1,070,936</u>	<u>6,880,494</u>	<u>7,216,672</u>	<u>5,809,558</u>	<u>336,178</u>

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

PICAYUNE SCHOOL DISTRICT
 Budgetary Comparison Schedule
 Displaced Students Fund
 For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$	1,917,316	1,959,902	1,917,316	42,586
Total Revenues	0	1,917,316	1,959,902	1,917,316	42,586
Expenditures:					
Instruction		1,843,240	1,885,826	(1,843,240)	(42,586)
Support services		74,076	74,076	(74,076)	
Total Expenditures	0	1,917,316	1,959,902	(1,917,316)	(42,586)
Excess (Deficiency) of Revenues over Expenditures	0	0	0	0	0
Total Other Financing Sources (Uses)	0	0	0	0	0
Net Change in Fund Balances	0	0	0	0	0
Fund Balances:					
July 1, 2005	0	0	0	0	0
June 30, 2006	\$	0	0	0	0

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

PICAYUNE 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.

(3) Individual Fund Disclosures.

Individual funds that have an excess of expenditures over budget, including amounts of the excess, are as follows:

<u>Individual Fund</u>		<u>Amount</u>
Activity Fund	\$	52,594
Hurricane Katrina Displaced Fund		42,586
Disaster Relief Fund		479,918
HeadStart Partnership Fund		43,406

The funds with an excess of expenditures over budget are not in violation of state law.

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PICAYUNE SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

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

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	\$ 79,880
Child nutrition cluster:		
School breakfast program	10.553	377,531
National school lunch program	10.555	986,799
Summer food service program for children	10.559	27,876
Total child nutrition cluster		<u>1,392,206</u>
Passed-through Picayune Board of Supervisors:		
Schools and roads - grants to states	10.665	<u>8,630</u>
Total U.S. Department of Agriculture		<u>1,480,716</u>
<u>U.S. Department of Defense</u>		
Direct program:		
Reserve Officers' Training Corps	12.XXX	<u>51,795</u>
Total U.S. Department of Defense		<u>51,795</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.XXX	<u>211,566</u>
Total Federal Communications Commission		<u>211,566</u>
<u>National Aeronautics and Space Administration</u>		
Direct program:		
Aerospace education services program	43.001	<u>10,253</u>
Total National Aeronautics and Space Administration		<u>10,253</u>
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	1,198,255
Vocational education - basic grants to states	84.048	65,472
Safe and drug-free schools and communities national programs	84.184	91,200
Safe and drug-free schools and communities - state grants	84.186	38,456
Education for homeless children and youth	84.196	46,667
State grants for innovative programs	84.298	11,713
Education technology state grants	84.318	33,966
Rural education	84.358	162,395
Improving teacher quality - state grants	84.367	361,941
Hurricane education recovery	84.938	4,449,196
Total		<u>6,459,261</u>
Special education cluster:		
Special education - grants to states	84.027	593,549
Special education - preschool grants	84.173	30,583
Total special education cluster		<u>624,132</u>
Total passed-through Mississippi Department of Education		<u>7,083,393</u>
Total U.S. Department of Education		<u>7,083,393</u>

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U.S. Department of Health and Human Services</u>		
Passed-through the Administration for Children and Families, Department of Health and Human Services:		
HeadStart	93.600	1,111,467
Total		<u>1,111,467</u>
Passed-through the Mississippi Department of Education:		
Medical assistance program	93.778	66,253
Total passed-through Mississippi Department of Education		<u>66,253</u>
Total U.S. Department of Health and Human Services		<u>1,177,720</u>
<u>Department of Homeland Security</u>		
Passed-through the Mississippi Emergency Management Agency:		
Disaster grant - public assistance (Presidentially declared disaster)	97.036	550,933
Total Department of Homeland Security		<u>550,933</u>
Total for All Federal Awards		<u>\$ 10,566,376</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.

PICAYUNE SCHOOL DISTRICT
 Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
 For the Year Ended June 30, 2006

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other Student Instructional Expenditures</u>	<u>General Administration</u>	<u>School Administration</u>	<u>Other</u>
Salaries and fringe benefits	\$ 23,040,785	15,070,021	928,512	1,628,947	5,413,305
Other	6,996,608	4,053,433	292,281	61,644	2,589,250
Total	\$ <u>30,037,393</u>	<u>19,123,454</u>	<u>1,220,793</u>	<u>1,690,591</u>	<u>8,002,555</u>
Total number of students*	<u>3,671</u>				
Cost per student	\$ <u>8,182</u>	<u>5,209</u>	<u>333</u>	<u>460</u>	<u>2,180</u>

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

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

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

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

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

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

REPORTS ON INTERNAL CONTROLS AND COMPLIANCE

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State of Mississippi

OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

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

Superintendent and School Board
Picayune School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Picayune School District as of and for the year ended June 30, 2006, which collectively comprise the Picayune School District's basic financial statements and have issued our report thereon dated March 14, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the school district's internal control over financial reporting 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. 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 judgment, could adversely affect the school district's ability to initiate, record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the Schedule of Findings and Questioned Costs as Findings 06-1, 06-2, 06-3, 06-4 and 06-5.

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. Our consideration of the internal control over financial reporting 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, of the reportable conditions described in the findings referred to above, we consider Findings 06-1 and 06-2 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*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the school district in a separate letter dated March 14, 2008, which is included in this report.

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



STACEY E. PICKERING
State Auditor



WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

March 14, 2008



State of Mississippi

OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
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
Picayune School District

Compliance

We have audited the compliance of the Picayune 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, Picayune 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 Picayune 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.

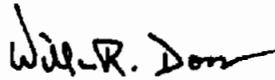
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, 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. Reportable conditions are described in the Schedule of Findings and Questioned Costs as Findings 06-6, 06-7 and 06-8.

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. 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, of the reportable conditions described in the findings referred to above, we consider Finding 06-6 to be 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. However, this report is a matter of public record and its distribution is not limited.



STACEY E. PICKERING
State Auditor



WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

March 14, 2008

PICAYUNE SCHOOL DISTRICT

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

PICAYUNE SCHOOL DISTRICT

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State of Mississippi

OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

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

Superintendent and School Board
Picayune School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Picayune School District as of and for the year ended June 30, 2006, which collectively comprise Picayune School District's basic financial statements and have issued our report thereon dated March 14, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed the following instance of noncompliance. The noncompliance is reported in finding number 1 below. The district reported \$62,361 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. Education Enhancement Funds Should Not Be Allocated to Federally Funded Teachers

Finding

Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), states that education enhancement classroom supplies and instructional materials funds be allocated equally among all classroom teachers in the school district. The word "teacher" shall not include a federally funded teacher.

During our review of the allocation of Education Enhancement Funds, we found that 11 of 188 teachers tested were also federally funded teachers, which is prohibited by Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972).

Allocation of classroom supplies and instructional materials funds to federally funded teachers could result in the district allowing some teachers to spend other teachers' allocations.

Recommendation

We recommend the district comply with Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), which prohibits the district from allocating education enhancement classroom supplies and instructional materials funds to federally funded teachers.

School District's Response

Education Enhancement Funds are monitored more closely now by comparing a payroll worksheet report in August to the teachers established with program codes in fund 2440.

2. State Purchasing Statutes Should Be Followed for Expenditures of Public Funds

Finding

During the fiscal year audited, Section 31-7-13, Miss. Code Ann. (1972), allowed purchases involving an expenditure of more than \$3,500 but not more than \$15,000, exclusive of freight and shipping charges, to be made from the lowest and best bidder without publishing or posting advertisements for bids, provided at least two competitive written bids were obtained.

During our examination of eight purchases between \$3,501 and \$15,000, totaling \$58,340, we found a purchase order issued in the amount of \$5,313 for the purchase of cheerleading uniforms approved and signed by a purchasing agent. The purchase order initially indicated that payment was to be made from an Agency Fund. Agency Funds are not required to comply with state purchasing laws. However, when the invoice was paid, the district paid the invoice from district maintenance funds in the amount of \$4,937, as approved in the board minutes. The payment from public funds required the district to follow state purchasing laws. In addition, the district purchased band uniforms in the amount of \$13,201 using public funds without obtaining quotes.

The lack of communication of the school board action prevented the purchasing agent and school personnel from detecting the error.

Purchases made without proper bids being obtained could result in the district not efficiently managing public funds.

Recommendation

We recommend that the district establish policies and procedures to ensure that the requirements of Section 31-7-13, Miss. Code Ann. (1972), are met.

School District's Response

All purchases greater than \$5,000 and less than \$25,000 are required on any purchase without respect to which fund is on the purchase order.

3. Donations Made from Public Funds Are Prohibited

Finding

Article 4, Section 96 of the Mississippi Constitution prohibits donations to any public employee.

During our audit tests, we noted that the school district purchased items for employee of the month in the amount of \$233, retirement recognition expenses in the amount of \$204, and holiday greetings in the amount of \$168 for district personnel from a school activity fund.

Inadequate internal controls relating to the amount of detail required on purchase orders resulted in the purchase of unallowable items.

Noncompliance with Article 4, Section 96 of the Mississippi Constitution could result in funds having to be repaid to the school district by the school board.

Recommendation

We recommend that the district implement policies and procedures to ensure only items that are authorized by law are purchased. Repayment for the unauthorized expenditures should be made by the school board or other responsible parties to the General Fund of the school district.

School District's Response

Only purchases for students will be allowed from activity funds.

Auditor's Note

The amount of \$605 was repaid to the Picayune School District's bank account on March 26, 2008, as evidenced by an official receipt from the bank.

4. District Should Comply With Activity Fund Expenditure Limitations Set In Statute

Finding

The district received an \$8,000 J & J Initiative Grant from the UCLA/Johnson & Johnson Health Care Literacy Training Program. The marketing plan of the grant stated that parent "goodie bags" would be "donated items", not purchased items. Further, the program implementation portion of the grant stated a limit of \$200 for door prizes and a \$500 limit for refreshments for parent and family incentives. Generally accepted accounting principles for local governments require that a Special Revenue Fund be used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Section 37-7-301(s), Miss. Code Ann. (1972), restricts the purposes for which activity funds can be spent.

The district deposited and accounted for the proceeds of the J & J Initiative Grant in a school activity fund, which is part of the General Fund. The district purchased \$800 in door prizes which ranged from a 20" flat-screen television to two \$25 gift cards, and \$1,300 for a catered crawfish boil.

Inadequate controls surrounding the administration of grants resulted in public money being spent for unauthorized purposes.

These overpayments could result in unallowable expenditures.

Recommendation

We recommend that the district follow generally accepted accounting principles for local governments and require grants to be administered through Special Revenue Funds in order to properly identify, allocate, budget, and report the activities of the grant. In addition, we also recommend that procedures be implemented to ensure that expenditures incurred with grant funds should be authorized by the grant. We further recommend that the district comply with Section 37-7-301(s), Miss. Code Ann. (1972), regarding activity fund expenditures. The district should contact the grantor for resolution regarding overpayments from the grant.

School District's Response

All grants will be recorded in Special Revenue Funds and budgets will be entered into the computer system.

5. Proper Forms Should Be Filed for All Retirees

Finding

The Public Employees' Retirement System of Mississippi (PERS) requires school districts hiring PERS service retirees to file PERS Form 4B "Certification/Acknowledgment of Re-employment of Retiree" with the PERS office within five days from the date of employment of the retiree. PERS also requires the school district and the individual to submit an Employee vs. Independent Contractor Questionnaire when the district is contracting with a PERS service retiree.

During our tests of internal controls related to nine retirees rehired by the school district, we noted that the PERS Form 4B was not filed for six of the nine retirees selected. We also noted one case in which the district failed to file a required form for the determination of independent contractor versus employee.

These internal control deficiencies were the result of inadequate training, due to the timing of the district hiring a new payroll clerk.

The retirees' retirement income could be effected by the district not filing PERS form 4B with PERS upon re-employment of retirees each year. In addition, the Mississippi Public Employees' Retirement System may assess a penalty per occurrence payable by the district for not filing PERS form 4B within five days of re-employment.

Recommendation

We recommend the district implement procedures to ensure that the district files PERS Form 4B "Certification/Acknowledgment of Re-employment of Retiree" for all retirees rehired by the school district within five days of re-employment. Independent contractor versus employee forms should also be filed as required by PERS regulations.

School District's Response

All paperwork for hiring retirees will be implemented and sent to the Mississippi Public Employees' Retirement System within five days.

6. Rents Due on Sixteenth Section Leases Should Be Collected Promptly

Finding

Section 29-3-57, Miss. Code Ann. (1972), requires the superintendent of education to promptly collect all rentals due on sixteenth section leases. This section further stipulates that upon a 60 day default in payment of any rentals according to the terms of the lease, the lease shall be terminated unless the board finds extenuating circumstances were present.

We found that two out of 25 sixteenth section leases tested were more than 60 days past due with no documentation that board action was taken as required by Section 29-3-57, Miss. Code Ann. (1972).

Inadequate understanding of the laws concerning sixteenth section leases resulted in this noncompliance.

Noncompliance with Section 29-3-57, Miss. Code Ann. (1972), could result in the district not receiving rental income for the use of the sixteenth section lands and forfeiture of any interest that the district could have earned on this income.

Recommendation

We recommend that the district comply with Section 29-3-57, Miss. Code Ann. (1972), when leases are in default for more than 60 days from the date due by declaring the lease terminated unless the board of education finds extenuating circumstances are present. Documentation of instances when extenuating circumstances are identified should be made in the minutes of the school board.

School District's Response

One lessee has been canceled due to nonpayment of lease and the other lessee paid late due to oversight of notice not sent from the business office. All leases are reviewed at the time of the school trust annual report and collection or payment or cancellation is initiated in a timely manner.

7. Depositories Should Be Advertised to Comply with State Statutes

Finding

Section 37-7-333, Miss. Code Ann. (1972), states that all school boards shall advertise and accept bids for depositories, no less than once every three years, when such board determines that it can obtain a more favorable rate of interest and less administrative processing.

During our test on depositories, we noted that the district received bids for depositories but did not advertise for depositories as required by Section 37-7-333, Miss. Code Ann. (1972).

Inadequate understanding of the laws concerning depositories resulted in this noncompliance.

Recommendation

We recommend that the district comply with Section 37-7-333, Miss. Code Ann. (1972), which requires the school board to advertise as well as accept bids for depositories.

School District's Response

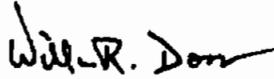
The current board approved depositories, effective July 1, 2007, were advertised as required by state law.

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

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



STACEY E. PICKERING
State Auditor



WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

March 14, 2008

PICAYUNE SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PICAYUNE SCHOOL DISTRICT

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PICAYUNE 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 financial statements? | No |
| 3. | Internal control over financial reporting: | |
| a. | Material weakness(es) identified? | Yes |
| 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: | Unqualified |
| 5. | Internal control over major programs: | |
| a. | Material weakness(es) identified? | Yes |
| 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. | Hurricane education recovery
CFDA #84.938 | |
| b. | Improving teacher quality - state grants
CFDA #84.367 | |
| c. | Disaster grant - public assistance (Presidentially declared disaster)
CFDA #97.036 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$316,991 |
| 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 |

PICAYUNE SCHOOL DISTRICT

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

Section 2: Financial Statement Findings

Material Weaknesses

06-1. Controls Concerning the Bank Reconciliation Process Should Be Strengthened

Finding

A critical aspect of effective financial management is the maintenance of accurate accounting records, which includes reconciling monthly bank statements to the balances in the general ledger. In addition, proper internal controls dictate the district prepare accurate and timely bank reconciliations to ensure account balances are properly presented.

During our test of cash transactions, we noted that none of the 2006 fiscal year bank statements for the district's payroll clearing bank account were properly reconciled until after the fiscal year had been closed. The district pays all payroll related transactions from the payroll clearing fund bank account. In the payroll clearing account, a reconciling item in the amount of \$72,208 was carried until December of 2007 when it was brought to the district's attention by the auditor. The district earned a 1% retirement credit during the fiscal year that had not been recorded in the amount of \$134,653. The district also paid workers compensation premiums with part of this earned credit and had not recorded the premium as an expenditure in the amount of \$46,953. The amount transferred from the governmental funds for employer paid insurance benefits was \$25,492 more than the district's liability. We also noted that other bank accounts were not being reconciled monthly.

The district was behind on reconciling bank statements to the general ledger because of the aftermath of Hurricane Katrina and illnesses in the business office.

In the governmental funds, the district understated revenue in the amount of \$134,653, understated expenditures in the amount of \$46,953 for workers compensation premiums and overstated employee insurance expenditures in the amount of \$25,492 due to not accurately reconciling bank accounts and promptly correcting errors. Audit adjustments were proposed and made by management to the financial statements.

Recommendation

We recommend the district ensure that all bank statements are reconciled to the general ledger monthly. Any differences should be investigated and resolved.

06-2. Internal Controls Related to Recognition of Revenue Should Be Strengthened

Finding

Management is responsible for ensuring that revenue is properly and accurately recorded and reported. For reimbursable programs, receivables are amounts due to the district once program expenditures are incurred.

During our test of receivables, we found that \$237,313 was incorrectly recorded as federal revenue and set up as receivables.

PICAYUNE SCHOOL DISTRICT

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

The district recorded receivables for federal programs at year-end by calculating the difference between expenditures and revenue for each federal fund without giving consideration to prior year balances. In addition, expenditures were reclassified to other funds after the receivables were recorded. Audit adjustments were proposed to management and the financial statements were adjusted.

Lack of communication between responsible employees resulted in the district's revenue, receivables, and net assets being overstated.

Recommendation

We recommend that the district implement policies and procedures to ensure that expenditures, revenue, and receivables for the federal programs are properly recorded in the financial statements.

Reportable Conditions Not to Be Considered Material Weaknesses

06-3. Payroll Expenditures Should Be Supported by Adequate Documentation

Finding

Management is responsible for ensuring that all payroll expenditures made by the district are adequately documented.

During our tests of payroll expenditures, we found that the supporting documentation for nonexempt employees was incomplete, or was not used to calculate the amount of salary the employee had earned.

As a result of improper internal controls for payroll expenditures, payments to nonexempt personnel were processed without adequate documentation.

Payment of wages without adequate records could result in employees being improperly compensated.

Recommendation

We recommend the district maintain adequate records for all nonexempt personnel to support payroll expenditures.

06-4. Controls Should Be Strengthened Related to the Receipt of Goods and Services

Finding

Management is responsible for establishing a proper internal control system to ensure strong financial accountability and safeguarding of assets. A critical aspect of financial management is the maintenance of accurate accounting records, which includes ensuring that goods and services are received.

During our test of accounts payable expenditures, we noted 53 instances of the 101 invoices tested in which no signature was present indicating receipt of goods or services. The district's procedures did not require signatures by the person actually receiving the goods or services ordered. The district's procedure only required the date which the goods or services were received to be stamped or noted on the invoice. Additionally, it was observed that a school secretary or the accounts payable bookkeeper wrote or stamped the date goods or services were received when they were not the person actually receiving the goods or services.

PICAYUNE SCHOOL DISTRICT

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

District management was unaware of the importance of internal controls surrounding the documentation of the receipt of goods and services.

Invoices could be paid in error for items not actually received. Without having the signature of the person who actually received the goods or services, there is a possibility for erroneous invoicing to occur and the district would not have the ability to detect, within a reasonable amount of time, the individual who initially received the goods.

Recommendation

We recommend that the district implement policies and procedures to ensure that personnel who receive goods and services sign and date the invoice or packing slip to ensure accountability and accurate record keeping.

06-5. Controls Should Be Strengthened Surrounding the Evaluation and Reporting of Fiduciary Funds

Finding

A critical aspect of financial management is the maintenance of accurate accounting records, which includes ensuring all school related activities are properly recorded on the financial statements of the school district. Generally accepted accounting principles for local governments require proper classification of fund types depending on the available use of the fund.

Revenue and expenditure transactions in the amounts of \$72,663 and \$56,763, respectively, were not reported in the district's governmental funds financial statements as General Fund transactions because they were commingled with club accounts. In addition, the fund balance of the General Fund was understated by \$14,475. Once this was brought to management's attention by the auditor, the appropriate journal entries were made to correct the June 30, 2006, financial statements.

The above deficiencies resulted from improper internal controls related to the revenues and expenditures of activity and club funds.

This procedure could result in the district's financial statements being materially misstated. This procedure could also allow the opportunity for someone to make purchases which could violate public purchasing statutes.

Recommendation

We recommend the district implement policies and procedures which ensures the evaluation of all Fiduciary Fund transactions at an appropriate level of management to provide accurate classification within the financial statements on a timely basis.

PICAYUNE SCHOOL DISTRICT

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

Section 3: Federal Award Findings and Questioned Costs

Material Weakness

06-6. Controls Should Be Strengthened Surrounding Capital Asset Donations

Program: Disaster grants - public assistance (Presidentially declared disasters); Passed-through the Mississippi Emergency Management Agency - CFDA #97.036

Compliance requirement: Equipment and real property management

Finding

Management is responsible for ensuring that proper records are maintained for equipment acquired with federal awards.

During our test of capital assets, it was noted that portable classrooms valued at \$479,918, which were donated to the district by the Federal Emergency Management Agency, had not been recorded on the district's capital asset subsidiary ledger nor reported on the financial statements as a required component of the grant.

The above issue appears to be due to inadequate controls surrounding the recognition of non-cash capital asset donations. This oversight appears to be isolated in nature due to the item not having been purchased by the district and, in addition, the district was recovering from Hurricane Katrina.

Auditors proposed appropriate audit adjustments which were made by management to correct this error.

Recommendation

We recommend the district strengthen controls to ensure compliance with non-cash capital asset donations with regard to federal programs.

Reportable Conditions Not Considered to Be Material Weaknesses

06-7. Controls Should Be Strengthened Regarding Purchasing/Grant Compliance

Program: HeadStart - CFDA #93.600

Compliance requirement: Procurement and suspension and debarment

Finding

Management is responsible to ensure that procurement of goods and services are made in compliance with the provisions of OMB Circular A-102 Common Rule which requires that when procuring property and services, under a federal grant, a grantee will follow the same policies and procedures it uses for procurements from its non-federal funds.

During the year audited, Section 37-7-13 Miss. Code Ann. (1972), required that purchases made in excess of \$15,000 be advertised for bids or purchased through a state contract.

PICAYUNE SCHOOL DISTRICT

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

Expenditures for the purchase of two Jeep Grand Cherokee Sports Utility Vehicles in the amount of \$43,737 were made without the district obtaining bids or purchasing through a state contract. In addition, the purchase order indicated that the purchasing agent signed the purchase order on September 20, 2005, and the retail buyer's order indicated the order was made on September 16, 2005.

The Division of Pupil Transportation of the Mississippi Department of Education requires school districts to obtain permission to purchase vehicles and have procured state contracts for school buses, but not other vehicles. When the school district obtained permission to purchase the vehicles, they certified that they had complied with general purchase laws on the Application to Purchase Vehicles Other Than School Buses.

The district did not allow for competition and could have paid a premium for the purchase of the two vehicles.

Recommendation

We recommend the district strengthen controls over purchasing to ensure the district follows state purchasing laws located in Section 37-7-13, Miss. Code Ann. (1972), when purchasing vehicles.

06-8. Controls Should Be Strengthened for Cash Management Procedures Related to Federal Awards

Program: Improving teacher quality - state grants - CFDA #84.367

Compliance requirement: Cash management

Finding

Management is responsible for ensuring that draw downs of federal funds are only for immediate needs of the district. The district's records indicate excess fund balances in the Improving Teacher Quality Fund for all 12 months due to the district requesting funds in excess of its immediate needs from the Mississippi Department of Education.

This situation represents a weakness over the controls related to the cash management requirement for this federal program.

Requesting funds in excess of the district's immediate needs could jeopardize future funding for the improving teacher quality program.

Recommendation

We recommend the district implement policies and procedures to ensure compliance with the cash management requirement for federal program funds, which requires the district to request funds in a manner that will minimize the amount of time the federal funds will be held by the district prior to disbursements.

PICAYUNE SCHOOL DISTRICT

AUDITEE'S CORRECTIVE ACTION PLAN

PICAYUNE SCHOOL DISTRICT

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PICAYUNE SCHOOL DISTRICT

DEAN SHAW
Superintendent

BRENT HARRELL
Assistant Superintendent

BILL SPIERS
Assistant Superintendent

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Fax (601) 798-1742

LISA PENTON
Director of Finance

KRISTEN LADNER
Director of Exceptional Education

FRANK McCARDLE
Director of Federal Programs

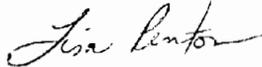
Financial & Compliance Audit Division

As required by Section __.315(c) of OMB Circular A-133, the Picayune 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, 2006:

<u>Finding</u>	<u>Corrective Action Plan Details</u>
06-1	<ul style="list-style-type: none">a. Lisa Penton, Director of Finance, 601-798-3230b. Some duties have been shifted to the bookkeeper from the accountant so bank statements are reconciled monthly.c. Corrective action is in place.
06-2	<ul style="list-style-type: none">a. Lisa Penton, Director of Finance, 601-798-3220b. Journal entries will be approved by the finance director concerning federal funds.c. Corrective action will be in place by March 31, 2008
06-3	<ul style="list-style-type: none">a. Lisa Penton, Director of Finance, 601-798-3230b. Adequate records will be maintained for all nonexempt employees.c. Corrective action will be in place by June 30, 2008.
06-4	<ul style="list-style-type: none">a. Lisa Penton, Director of Finance, 601-798-3230b. A new stamp will be purchased by the business office requiring signature and date from person receiving goods.c. Corrective action will be in place by June 30, 2008.
06-5	<ul style="list-style-type: none">a. Lisa Penton, Director of Finance, 601-798- 3230b. Club funds which are activity funds have been moved to activity funds.

- c. Correction action is in place.
- 06-6
 - a. Lisa Penton, Director of Finance, 601-798-3230
 - b. Non-cash capital donations will be recorded when received in the fixed asset software.
 - c. Corrective action is in place.
- 06-7
 - a. Lisa Penton, Director of Finance, 601-798-3230
 - b. The purchasing laws will be followed when purchasing vehicles.
 - c. Correction action is in place.
- 06-8
 - a. Lisa Penton, Director of Finance, 601-798-3230
 - b. Journal entries will be approved by the finance director concerning federal funds.
 - c. Corrective action will be in place by March 31, 2008.

Sincerely yours,



Lisa Penton
Director of Finance