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ALCORN SCHOOL DISTRICT
AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007



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JUNE 30, 2007**

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

Superintendent and School Board
Alcorn School District

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Alcorn School District as of and for the year ended June 30, 2007, which collectively comprise the Alcorn School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Alcorn 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 Alcorn School District at June 30, 2007, 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 August 18, 2008, on our consideration of the Alcorn 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 and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8 and the Budgetary Comparison Schedules and corresponding notes on pages 29 and 30 are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and we express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Alcorn 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 financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Brauner Vorstony & Company, P. A.

August 18, 2008
Corinth, Mississippi

**ALCORN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007**

This discussion and analysis of Alcorn School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2007. 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 selection 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 decreased \$1,598,770, which represents a 13.40% decrease from fiscal year 2006.

General revenues account for \$24,439,704 in revenue, or 83.22% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$4,929,130 or 16.78% of total revenues.

The District had \$30,967,604 in expenses; only \$4,929,130 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$24,439,704 were not adequate to provide for these programs, as the District had to utilize \$1,598,770 of net assets.

Among major funds, the General Fund had \$23,587,208 in revenues and \$24,971,851 in expenditures. The General Fund's fund balance decreased \$1,285,744 from the prior year.

Capital assets, net of accumulated depreciation, decreased by \$133,813.

Long-term debt increased by \$2,473,315.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

**ALCORN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007**

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

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

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

Notes to the financial statements. The notes provide additional information that is essential to 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 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 \$10,332,191 as of June 30, 2007.

By far the largest portion of the District's net assets 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), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending.

**ALCORN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007**

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. Table 1 presents a summary of the District's net assets for the fiscal year ended June 30, 2007, compared to June 30, 2006.

Table 1 - Condensed Statement of Net Assets

	2007	2006	Increase (Decrease)	Percent Increase (Decrease)
Current Assets	\$ 6,067,209	\$ 3,106,047	\$ 2,961,162	95.34%
Capital Assets, Net	15,645,304	15,779,117	(133,813)	-0.85%
Total Assets	21,712,513	18,885,164	2,827,349	14.97%
Current Liabilities	2,099,358	681,357	1,418,001	208.11%
Long-Term Debt Outstanding	9,280,964	6,272,846	3,008,118	47.95%
Total Liabilities	11,380,322	6,954,203	4,426,119	63.65%
Net Assets:				
Invested in Capital Assets, Net of Related Debt	6,637,846	9,212,188	(2,574,342)	-27.94%
Restricted	3,594,301	884,542	2,709,759	306.35%
Unrestricted	100,044	1,834,231	(1,734,187)	-94.55%
Total Net Assets	\$ 10,332,191	\$ 11,930,961	\$ (1,598,770)	-13.40%

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2007, were \$29,368,834. The total cost of all programs and services was \$30,967,604. Table 2 presents a summary of the changes in net assets for the fiscal year ended June 30, 2007, compared to June 30, 2006:

Table 2 - Changes in Net Assets

	2007	2006	Increase (Decrease)	Percent Increase (Decrease)
Revenues:				
Program Revenues				
Charges for Services	\$ 490,354	\$ 464,749	\$ 25,605	5.51%
Operating Grants and Contributions	4,438,776	4,377,338	61,438	1.40%
General Revenues				
Property Taxes	4,398,504	4,694,530	(296,026)	-6.31%
Grants and Other Contributions				
Not Restricted	18,629,591	17,870,571	759,020	4.25%
Other	1,411,609	1,342,145	69,464	5.18%
Total Revenues	29,368,834	28,749,333	619,501	2.15%
Expenses:				
Instruction	19,689,313	18,515,974	1,173,339	6.34%
Support Services	9,425,029	8,922,693	502,336	5.63%
Non-Instructional	1,649,899	1,611,796	38,103	2.36%
Interest on Long-Term Liabilities	203,363	300,905	(97,542)	-32.42%
Total Expenses	30,967,604	29,351,368	1,616,236	5.51%
Increase (Decrease) in Net Assets	\$ (1,598,770)	\$ (602,035)	\$ (996,735)	165.56%

**ALCORN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007**

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

**Table 3
Net Cost of Governmental Activities**

	Total Expenses		Total	Net (Expense) Revenue		Total
	2007	2006	Percentage Change	2007	2006	Percentage Change
Instruction	\$ 19,689,313	\$ 18,515,974	6.34%	\$ (17,446,786)	\$ (15,989,158)	-9.12%
Support Services	9,425,029	8,922,693	5.63%	(8,363,685)	(8,153,378)	-2.58%
Non-Instructional	1,649,899	1,611,796	2.36%	(24,640)	(65,840)	62.58%
Interest on						
Long-Term Liabilities	203,363	300,905	-32.42%	(203,363)	(300,905)	32.42%
Total Expenses	\$ 30,967,604	\$ 29,351,368	5.51%	\$ (26,038,474)	\$ (24,509,281)	-6.24%

The net cost of governmental activities, \$26,038,474 was financed by general revenue, which is made up of primarily property and privilege taxes of \$4,398,504 and state revenue of \$18,384,905.

Investment earnings accounted for \$157,509 of general revenues.

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, outflow 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 \$3,974,956, an increase of \$888,466. \$903,803 or 22.74% 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 \$3,071,153 or 77.26% 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 decrease in fund balance in the General Fund for the fiscal year was \$1,285,744. The fund balance of Other Governmental Funds, including Other Major Funds showed an increase of \$2,174,210.

**ALCORN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007**

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget. Significant changes are noted below.

General Fund

Budgeted Revenues were adjusted to reflect a decrease in local and state revenues. Expenditures were adjusted to reflect employment of additional staff and for raises approved after the original budget was adopted.

A schedule showing the original and final budget amounts compared to the District's actual financial activity for the General Fund is provided in this report as required supplementary information. There were no major Special Revenue funds.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2007, the District's total capital assets were \$31,935,365, including land, school buildings, buses, other school vehicles, and furniture and equipment. This amount represents an increase of \$233,748 from the previous year. Total accumulated depreciation as of June 30, 2007, was \$16,290,061 and total depreciation expense for the year was \$754,561, resulting in total net assets of \$15,645,304.

Additional information of the District's capital assets can be found in this report. Table 4 shows fiscal year ended June 30, 2007, as compared to fiscal year ended June 30, 2006.

**Table 4
Capital Assets at June 30, 2006 and 2005 (Net of Depreciation)**

	2007	2006	Increase (Decrease)	Percent Increase (Decrease)
Land	\$ 241,802	\$ 241,802	-	0.00%
Construction in Progress	185,850	-	185,850	100.00%
Buildings	12,473,805	12,489,253	(15,448)	-0.12%
Building Improvements	1,464,962	1,512,983	(48,021)	-3.17%
Mobile Equipment	464,501	635,218	(170,717)	-26.88%
Furniture and Equipment	155,229	154,818	411	0.27%
Leased Property Under Capital Assets	659,155	745,043	(85,888)	-11.53%
Totals	\$ 15,645,304	\$ 15,779,117	(133,813)	-0.85%

**ALCORN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007**

Debt Administration. At June 30, 2007, the District had \$9,280,964 in long-term debt outstanding, of which \$823,766 is due within one year.

Table 5 shows fiscal year ended June 30, 2007, as compared to fiscal year ended June 30, 2006:

**Table 5
Long-Term Debt Outstanding as of June 30, 2007 and June 30, 2006**

	2007	2006	Increase (Decrease)	Percent Increase (Decrease)
Limited Obligation Bonds Payable	\$ 5,320,000	\$ 5,425,000	\$ (105,000)	-1.94%
Three-Mill Note Payable	3,000,000	-	3,000,000	100.00%
Transportation Equipment Loans Payable	-	230,000	(230,000)	-100.00%
Obligations Under Capital Leases	817,126	911,929	(94,803)	-10.40%
Compensated Absences Payable	273,506	240,720	32,786	13.62%
	9,410,632	6,807,649	2,602,983	38.24%
Less Deferred Refunded Amounts	(129,668)	-	(129,668)	-100.00%
Total	\$ 9,280,964	\$ 6,807,649	\$ 2,473,315	36.33%

CURRENT ISSUES

Due to economic conditions, the Alcorn School District has increased its millage rate by 3.50 mills, from 44.87 to 48.37 mills.

The latest enrollment figures indicate that student enrollment in the District will continue to increase slightly. Therefore, no decrease in funds for the following year is expected.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Alcorn School District, P.O. Box 1420, Corinth, MS 38835.

ALCORN SCHOOL DISTRICT
Statement of Net Assets
June 30, 2007

	Governmental Activities
Assets	
Cash and cash equivalents (Note 2)	\$ 4,428,733
Investments (Note 2)	279,759
Due from other governments	1,206,276
Inventories and prepaid items	47,895
Debt issue costs, net of accumulated amortization	104,546
Capital assets, not being depreciated	
Land	241,802
Construction in progress	185,850
Capital assets, net of accumulated depreciation	
Buildings	12,473,805
Building improvements	1,464,962
Mobile equipment	464,501
Furniture and equipment	155,229
Lease property under capital leases	659,155
Total Assets	\$ 21,712,513
Liabilities	
Accounts payable and accrued liabilities	\$ 1,976,272
Deferred revenue	11,435
Interest payable on long-term liabilities	106,518
Premium on debt issuance, net of accumulated amortization	5,133
Long-term liabilities, due within one year	
Capital related liabilities (Note 5)	823,766
Long-term liabilities, due beyond year	
Capital related liabilities (Note 5)	8,183,692
Non-capital related liabilities (Note 5)	273,506
Total Liabilities	\$ 11,380,322
Net Assets	
Investment in capital assets, net of related debt	\$ 6,637,846
Restricted net assets:	
Expendable:	
School-based activities	578,148
Debt service	760,421
Capital improvements	2,188,158
Unemployment benefits	67,574
Unrestricted	100,044
Total Net Assets	\$ 10,332,191

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

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

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Primary Governmental Activities
Primary Government:					
Governmental Activities:					
Instruction	\$ 19,689,313	74,610	2,167,917	-	(17,446,786)
Support services	9,425,029	2,561	1,058,783	-	(8,363,685)
Non-instructional	1,649,899	413,183	1,212,076	-	(24,640)
Interest on long-term liabilities	203,363	-	-	-	(203,363)
Total governmental activities	\$ 30,967,604	490,354	4,438,776	-	(26,038,474)
General Revenues:					
Taxes:					
General purpose levies 4,080,690					
Debt purpose levies 317,814					
Unrestricted grants and contributions: -					
State 18,384,905					
Federal 244,686					
Unrestricted investment earnings 157,509					
Other 1,254,100					
Total General Revenues 24,439,704					
Change in Net Assets (1,598,770)					
Net Assets - Beginning 11,930,961					
Net Assets - Ending \$ 10,332,191					

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

ALCORN SCHOOL DISTRICT
Balance Sheet - Governmental Funds
June 30, 2007

	Major Funds			Total Governmental Funds
	General Fund	Building Project Fund	Other Governmental Funds	
ASSETS				
Cash and cash equivalents (Note 2)	\$ 1,450,275	\$ 2,210,711	767,747	4,428,733
Investments (Note 2)	-	-	279,759	279,759
Due from other governments	313,741	-	892,535	1,206,276
Due from other funds (Note 3)	284,383	-	23,949	308,332
Inventories and prepaid items	-	-	47,895	47,895
Total Assets	\$ 2,048,399	\$ 2,210,711	2,011,885	6,270,995
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable and accrued liabilities	\$ 1,650,899	22,553	302,820	1,976,272
Due to other funds (Note 3)	23,949	-	284,383	308,332
Deferred revenue	-	-	11,435	11,435
Total Liabilities	1,674,848	22,553	598,638	2,296,039
Fund Balances				
Reserved for:				
Inventory	-	-	47,895	47,895
Unemployment	-	-	67,574	67,574
Capital Projects funds	-	2,188,158	-	2,188,158
Debt Service funds	-	-	767,526	767,526
Unreserved:				
Undesignated, reported in:				
General fund	373,551	-	-	373,551
Special Revenue funds	-	-	530,252	530,252
Total Fund Balances	373,551	2,188,158	1,413,247	3,974,956
Total Liabilities and Fund Balances	\$ 2,048,399	2,210,711	2,011,885	6,270,995

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

ALCORN SCHOOL DISTRICT
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2007

	Amount
Total Fund Balance - Governmental Funds	\$ 3,974,956
Amounts reported for governmental activities in the statement of net	
Capital assets are used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$16,290,061 (Note 4).	15,645,304
Long-term liabilities are not due and payable in the current period and therefore not reported in the funds (Note 5).	(9,280,964)
Interest payable on long-term liabilities not due and payable in the current period and therefore are not reported in the funds.	(106,518)
Premiums on debt issuance are recorded as an other financing source in the governmental funds; however, they are recorded as a liability and amortized in the government-wide statements	(5,133)
Debt issue costs are recorded as expenditures in the governmental funds; however they are capitalized and amortized in the government-wide statements	104,546
Total Net Assets - Governmental Activities	\$ 10,332,191

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

ALCORN SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds
For the Year Ended June 30, 2007

	Major Funds			Total Governmental Funds
	General Funds	Building Project Fund	Other Governmental Funds	
Revenues				
Local sources	\$ 5,495,350	-	804,856	6,300,206
State sources	17,821,399	-	1,446,417	19,267,816
Federal sources	270,459	-	3,530,094	3,800,553
Total Revenues	<u>23,587,208</u>	<u>-</u>	<u>5,781,367</u>	<u>29,368,575</u>
Expenditures				
Instruction	16,915,872	-	2,301,975	19,217,847
Support services	7,953,780	60,947	1,163,691	9,178,418
Noninstructional services	37,678	-	1,585,785	1,623,463
Facilities acquisition and construction	-	524,228	64,404	588,632
Debt services:			-	
Principal	42,548	-	607,255	649,803
Interest	21,973	-	188,259	210,232
Other	-	22,473	89,800	112,273
Total Expenditures	<u>24,971,851</u>	<u>607,648</u>	<u>6,001,169</u>	<u>31,580,668</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,384,643)</u>	<u>(607,648)</u>	<u>(219,802)</u>	<u>(2,212,093)</u>
Other Financing Sources (Uses)				
Proceeds of refunding bonds	-	-	4,635,000	4,635,000
Proceeds of loans	-	3,000,000	-	3,000,000
Premium on debt issuance	-	-	5,376	5,376
Sale of transportation equipment	6,850	-	-	6,850
Other financing sources	-	-	261	261
Payments of refunded bond escrow agent	-	-	(4,550,795)	(4,550,795)
Operating transfers in (Note 3)	317,776	-	225,727	543,503
Operating transfers out (Note 3)	(225,727)	(204,194)	(113,582)	(543,503)
Total Other Sources (Uses)	<u>98,899</u>	<u>2,795,806</u>	<u>201,987</u>	<u>3,096,692</u>
Net Change in Fund Balances	<u>(1,285,744)</u>	<u>2,188,158</u>	<u>(17,815)</u>	<u>884,599</u>
Fund Balances				
July 1, 2006	1,659,295	-	1,427,195	3,086,490
Increase in reserve for inventory	-	-	3,867	3,867
June 30, 2007	<u>\$ 373,551</u>	<u>2,188,158</u>	<u>1,413,247</u>	<u>3,974,956</u>

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

ALCORN SCHOOL DISTRICT
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2007

	Amounts
Net change in fund balances - Governmental Funds	\$ 884,599
Amounts reported 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 asset purchases amounted to \$653,748 and the depreciation expense amounted to \$745,561. (Note 4).	(91,813)
2. Proceeds of long-term liabilities are reported in the governmental funds, but not in the statement of activities. (Note 5).	(7,635,000)
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 net assets.	5,194,471
4. Increase in inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenses are decreased in the statement of activities	3,867
5. Losses on disposals of capital assets are not reported as expenditures in the governmental funds.	(35,150)
6. Proceeds from the sale of capital assets are reported as other financing sources in the governmental but the net gain (loss) is reported in the statement of activities.	(6,850)
7. An increase in the liability for compensated absences is reported as an expense in the statement of but not in the governmental funds.	(32,786)
8. Interest on long-term liabilities is recorded in the government funds when the payment is due, but is expensed in the statement of activities as accrued.	20,479
9. Premiums on debt issuance are recorded as an other financing source in the governmental funds; however, they are recorded as a liability and amortized in the government-wide statements	(5,133)
10. Debt issue costs are recorded as expenditures in the governmental funds, however, they are capitalized and amortized in the government-wide statements	104,546
Change in net assets of Governmental Activities	\$ (1,598,770)

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

ALCORN SCHOOL DISTRICT
Statement of Fiduciary Net Assets
June 30, 2007

	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash and cash equivalents (Note 2)	\$ 10,246	\$ 131,188
Total Assets	\$ 10,246	\$ 131,188
Liabilities		
Accounts payable and accrued liabilities	\$ -	\$ -
Due to student groups	-	131,188
Total Liabilities	\$ -	\$ 131,188
Net Assets		
Reserved for Endowments	\$ 10,246	
Total Liabilities	\$ 10,246	

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

Exhibit F

**ALCORN SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets
For the Year Ended June 30, 2007**

	<u>Private-Purpose Trust Funds</u>
Additions	
Interest on Investments	<u>\$ 455</u>
Total Additions	<u> 455</u>
Deductions	
Scholarships Awarded	<u> 600</u>
Total Deductions	<u> 600</u>
Change in Net Assets	(145)
Net Assets - Beginning of Year	<u> 10,391</u>
Net Assets - End of Year	<u><u>\$ 10,246</u></u>

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

**ALCORN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

(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 a "primary government." The school district is governed by a five member board of which each member was elected by the citizens of each defined county district.

B. Basis of Presentation

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

C. Measurement Focus and Basis of Accounting

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

**ALCORN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

(1) Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

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 so have been recognized as revenues of the current fiscal period. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

The school district reports the following major governmental funds:

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

Building Projects Fund - This capital projects fund is used to account for the proceeds of a three-mill loan used for capital projects.

All other governmental funds not meeting the criteria established for major funds are presented in the other governmental column of Exhibit C.

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 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.

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 operation.

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 2006 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.

**ALCORN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

(1) Summary of Significant Accounting Policies (Continued)

E. Encumbrances

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

F. Cash and Other 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 other deposits consist of amounts on deposit in demand accounts and certificates of deposit 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 inventories are received from the USDA and are valued at USDA cost. Other inventories are valued at cost (calculated on the first-in, first-out basis).

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

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

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

I. Capital Assets

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

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

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

**ALCORN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

(1) Summary of Significant Accounting Policies (Continued)

I. Capital Assets (continued)

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

	Capitalization Policy	Estimated Useful Life
Land	\$ -	-
Buildings	50,000	40 years
Building Improvements	25,000	20 years
Improvements other than Buildings	25,000	20 years
Mobile Equipment	5,000	5-10 years
Furniture and Equipment	5,000	3-7 years
Leased Property Under Capital Leases	*	*

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

Transfers are used to (a) move revenues from the fund that statute or budget requires collecting 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.

**ALCORN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

(1) Summary of Significant Accounting Policies (Continued)

L. Equity Classifications

Government-Wide Financial Statements:

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

1. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, 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 further split between 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 capital projects - An account that represents a portion of the fund balance in the capital projects funds which was legally restricted and not available for spending for any other purpose than that for which it is restricted.

Reserved for debt service - An account that represents that portion of fund balance in the debt service funds 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.

M. Property Taxes

Ad valorem property taxes are levied by the governing authority of the county 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.

**ALCORN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

(1) Summary of Significant Accounting Policies (Continued)

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

Investments. Sections 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 in the governmental funds and fiduciary funds was \$4,428,733 and \$141,434, respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and cash equivalents \$4,428,733. The bank balance was \$5,622,704.

**ALCORN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

(2) Cash and Cash Equivalents, Cash with Fiscal Agents and Investments (Continued)

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 formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above the FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2007, none of the district's bank balance of \$5,622,704 was exposed to custodial credit risk.

Investments

As of June 30, 2007, the district had the following investments. All investments are in an internal investment pool.

<u>Investment Type</u>	<u>Maturities (in Years)</u>	<u>Fair Market Value</u>	<u>Rating</u>
Hancock Bank Treasury Money Market	Less than 1	\$ 279,759	AAA
Total Investments		<u>\$ 279,759</u>	

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

Credit Risk - State law limits investments to those prescribed in 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, 2007, none of the district's investment balance was exposed to custodial credit risk.

Concentration of Credit Risk - Disclosures of investments by amount and issuer for any issuer that represents five percent (5.00%) 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, 2007, the district had no investments requiring such disclosure.

(3) Interfund Transactions and Balances

The following is a summary of interfund transactions and balances:

A. Due From/Due To Other Funds

	<u>Due From</u>	<u>Due To</u>
Governmental Funds:		
General Fund	\$ 284,383	\$ 23,949
Other Governmental Funds	<u>23,949</u>	<u>284,383</u>
Total All Funds	<u>\$ 308,332</u>	<u>\$ 308,332</u>

All General Fund due from balances were to eliminate deficit cash balances in other funds. The General Fund due to balance represents a repayment due to the Cafeteria Fund for secretaries salaries paid from that fund in error.

**ALCORN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

(3) Interfund Transactions and Balances (Continued)

B. Transfers In/Transfers Out

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
General Fund	\$ 317,776	\$ 225,727
Building Project Fund	-	204,194
Other Governmental Funds	<u>225,727</u>	<u>113,582</u>
Total All Funds	<u>\$ 543,503</u>	<u>\$ 543,503</u>

The transfer from the General Fund to Other Governmental Funds in the amount of \$225,727 was to support the Unemployment Compensation Fund (\$6,000), the Vocational Fund (\$147,016), and the Cafeteria Fund (\$72,712). The transfer from the Building Projects Fund to the General Fund was a reimbursement for qualified expenditures paid for originally from the District Maintenance Fund. The transfers out of the Other Governmental Funds were to reimburse the District Maintenance Fund for various expenditures that should have been paid from those funds.

(4) Capital Assets

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

	<u>Balance 6/30/06</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	<u>Balance 6/30/07</u>
<u>Non-Depreciable Capital Assets</u>					
Land	\$ 241,802	\$ -	\$ -	\$ -	\$ 241,802
Construction in Progress	-	185,850	-	-	185,850
Total Non-Depreciable Capital Assets	<u>241,802</u>	<u>185,850</u>	<u>-</u>	<u>-</u>	<u>427,652</u>
<u>Depreciable Capital Assets:</u>					
Buildings	25,420,945	375,000	-	-	25,795,945
Building Improvements	1,867,307	27,783	-	-	1,895,090
Mobile Equipment	2,553,235	-	420,000	-	2,133,235
Furniture and Equipment	664,014	65,115	-	-	729,129
Leased Property Under Capital Leases	<u>954,314</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>954,314</u>
Total Depreciable Capital Assets	<u>31,459,815</u>	<u>467,898</u>	<u>420,000</u>	<u>-</u>	<u>31,507,713</u>
<u>Less Accumulated Depreciation for:</u>					
Buildings	12,931,692	390,448	-	-	13,322,140
Building Improvements	354,324	75,804	-	-	430,128
Mobile Equipment	1,918,017	128,717	378,000	-	1,668,734
Furniture and Equipment	509,196	64,704	-	-	573,900
Leased Property Under Capital Leases	<u>209,271</u>	<u>85,888</u>	<u>-</u>	<u>-</u>	<u>295,159</u>
Total Accumulated Depreciation	<u>15,922,500</u>	<u>745,561</u>	<u>378,000</u>	<u>-</u>	<u>16,290,061</u>
Total Depreciable Capital Assets, Net	<u>15,537,315</u>	<u>(277,663)</u>	<u>42,000</u>	<u>-</u>	<u>15,217,652</u>
Governmental Activities Capital Assets, Net	<u>\$ 15,779,117</u>	<u>\$ (91,813)</u>	<u>\$ 42,000</u>	<u>\$ -</u>	<u>\$ 15,645,304</u>

**ALCORN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

(4) Capital Assets (Continued)

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 470,594
Support Services	246,340
Non-Instructional	28,627
 Total Depreciation Expense	 \$ 745,561

Commitments under construction contracts at June 30, 2007, are summarized as follows:

	Remaining Commitment	Required Future Financing
Alcorn Central Additions and Renovations	\$ 881,731	\$ -
Biggersville Gym Renovations	369,032	-
Kossuth Additions and Renovations	890,700	-
 Total	 \$ 2,141,463	 \$ -

(5) Long-Term Liabilities

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

	Balance 7/1/2006	Additions	Reductions	Balance 6/30/2007	Amounts Due Within One Year
A. Limited Obligation Bonds Payable	\$ 5,425,000	\$ 4,635,000	\$ 4,740,000	\$ 5,320,000	\$ 340,000
Less Deferred Refunded Amounts	-	(135,794)	(6,126)	(129,668)	(12,252)
B Three Mill Note Payable	-	3,000,000	-	3,000,000	400,000
C Transportation Equipment Loans Payable	230,000	-	230,000	-	-
D Obligations Under Capital Lease	911,929	-	94,803	817,126	96,018
E Compensated Absences Payable	240,720	32,786	-	273,506	-
Total	\$ 6,807,649	\$ 7,531,992	\$ 5,058,677	\$ 9,280,964	\$ 823,766

**ALCORN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

(5) Long-Term Liabilities (Continued)

A. Limited Obligation Bonds Payable.

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
State Aid Capital Improvement Bonds, Series 1998	Varies	5/1/1998	2/1/2018	\$ 6,895,000	\$ 685,000
State Aid Capital Improvement Refunding Bonds, Series 2006		12/19/2006	2/1/2018	<u>4,635,000</u>	<u>4,635,000</u>
Total				<u>\$ 11,530,000</u>	<u>\$ 5,320,000</u>

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

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>
2008	\$ 340,000	\$ 200,984	\$ 540,984
2009	365,000	185,727	550,727
2010	395,000	169,880	564,880
2011	410,000	153,780	563,780
2012	425,000	137,080	562,080
2013 - 2017	2,395,000	417,771	2,812,771
2018	<u>990,000</u>	<u>27,321</u>	<u>1,017,321</u>
Total	<u>\$ 5,320,000</u>	<u>\$ 1,292,543</u>	<u>\$ 6,612,543</u>

This debt will be retired from the MAEP Retirement Fund.

Current Refunding.

On December 19, 2006, the District issued \$4,635,000 in limited obligation bonds with an average interest rate of 3.875% to advance refund \$4,415,000 of outstanding state aid capital improvement limited obligation bonds with an average interest rate of 4.67%. The net proceeds of \$4,550,795, after payments of \$86,079 for issuance costs were deposited in an irrevocable trust with an escrow agent to provide for all future debt payment requirements on that portion of the state aid capital improvement limited obligation bonds.

As a result, that portion of the state aid capital improvement limited obligation bonds are considered to be defeased and the liability for those bonds has been removed from long-term liabilities.

The District advance refunded the state aid capital improvement limited obligation bonds to reduce its total debt service payments over the remaining 11 years by approximately \$110,354 and to obtain an economic gain of \$116,723 (the difference between the present values of the debt service payments on the old and new debt).

**ALCORN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

(5) Long-Term Liabilities (Continued)

B. Three Mill Notes Payable.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Limited Tax Notes, Series 2007	4.75%	5/22/2007	9/1/2022	\$ 3,000,000	\$ 3,000,000
Total				<u>\$ 3,000,000</u>	<u>\$ 3,000,000</u>

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

Year Ending June 30,	Principal	Interest	Total
2008	\$ 400,000	\$ 85,700	\$ 485,700
2009	155,000	101,804	256,804
2010	160,000	95,504	255,504
2011	165,000	89,004	254,004
2012	170,000	82,304	252,304
2013 - 2017	865,000	305,619	1,170,619
2018-2022	885,000	134,910	1,019,910
2023	200,000	4,150	204,150
Total	<u>\$ 3,000,000</u>	<u>\$ 898,995</u>	<u>\$ 3,898,995</u>

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

C. Transportation Equipment Loans Payable.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Negotiable Notes, Series 1998	4.75%	2/1/1998	2/1/2008	\$ 1,000,000	\$ -
Total				<u>\$ 1,000,000</u>	<u>\$ -</u>

D. Obligation Under Capital Leases.

The school district has entered into two lease agreement that qualifies as capital leases for accounting purposes. Leased property under this lease is composed of .

1. Nine school buses
2. Nine school buses and HVAC equipment

The option available to the lessee for these leases is as follows:

Title shall be vested in the school district as long as the district is not in default under the agreement.

**ALCORN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

(5) Long-Term Liabilities (Continued)

D. Obligation Under Capital Leases. (continued).

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

Year Ending June 30,	Principal	Interest	Total
2008	96,018	37,204	133,222
2009	100,410	32,813	133,223
2010	105,005	28,217	133,222
2011	109,813	23,409	133,222
2012	114,844	18,379	133,223
2013-2016	291,036	29,220	320,256
Total	<u>\$ 817,126</u>	<u>\$ 169,242</u>	<u>\$ 986,368</u>

E. 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 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 information may be obtained by writing to Public Employee Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling (601) 359-3589 or 1-800 444-PERS.

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary and the school district is required to contribute at an actuarially determined rate. The current rate is 11.30% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The Alcorn School District's contributions to PERS for the years ending June 30, 2007, 2006, and 2005, were \$2,071,250, \$1,887,901, and \$1,607,841, respectively, which equaled the required contributions for each year.

(7) Other Commitments

Commitments under construction contracts are described in Note 4.

(8) 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.

**ALCORN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

(9) Subsequent Events

Subsequent to June 30, 2007, the school district issued to following debt instruments.

<u>Title of Issue</u>	<u>Purpose</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount</u>
Tax Anticipation Notes	Cash Flow Management	1/31/08	2/1/09	3.51%	\$ 3,500,000

ALCORN SCHOOL DISTRICT
Budgetary Comparison Schedule for the General Fund
For the Year Ended June 30, 2007

	<u>Budget Amounts</u>		Actual GAAP Basis	<u>Variance - Positive (Negative)</u>	
	<u>Original</u>	<u>Final</u>		<u>Original to Final</u>	<u>Final to Actual</u>
Revenues					
Local sources	\$ 5,732,604	\$ 5,495,350	\$ 5,495,350	\$ (237,254)	\$ -
State sources	18,153,034	17,821,399	17,821,399	(331,635)	-
Federal sources	245,500	270,459	270,459	24,959	-
Total Revenues	<u>24,131,138</u>	<u>23,587,208</u>	<u>23,587,208</u>	<u>(543,930)</u>	<u>-</u>
Expenditures					
Instruction	16,532,222	16,915,872	16,915,872	(383,650)	-
Support services	8,091,018	7,949,700	7,953,780	141,318	(4,080)
Noninstructional services	9,250	37,678	37,678	(28,428)	-
Facilities acquisition and construction	-	4,080	-	(4,080)	4,080
Debt Services:					
Principal	42,548	42,548	42,548	-	-
Interest	21,548	21,973	21,973	(425)	-
Total Expenditures	<u>24,696,586</u>	<u>24,971,851</u>	<u>24,971,851</u>	<u>(275,265)</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(565,448)</u>	<u>(1,384,643)</u>	<u>(1,384,643)</u>	<u>(819,195)</u>	<u>-</u>
Other Financing Sources (Uses)					
Insurance Loss Recoveries	27,000	-	-	(27,000)	-
Sale of Transportation Equipment	4,500	6,850	6,850	2,350	-
Operating transfers in	2,251,784	321,639	317,776	(1,930,145)	(3,863)
Operating transfers out	(2,359,316)	(229,590)	(225,727)	2,129,726	3,863
Total Other Sources (Uses)	<u>(76,032)</u>	<u>98,899</u>	<u>98,899</u>	<u>174,931</u>	<u>-</u>
Net Change in Fund Balances	<u>(641,480)</u>	<u>(1,285,744)</u>	<u>(1,285,744)</u>	<u>(644,264)</u>	<u>-</u>
Fund Balances					
July 1, 2006	<u>1,659,295</u>	<u>1,659,295</u>	<u>1,659,295</u>	<u>-</u>	<u>-</u>
June 30, 2007	<u>\$ 1,017,815</u>	<u>\$ 373,551</u>	<u>\$ 373,551</u>	<u>\$ (644,264)</u>	<u>\$ -</u>

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

**ALCORN SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2007**

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, if applicable, consistent with accounting principles generally accepted in the United States of America.

ALCORN SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
U.S. Department of Agriculture		
Passed-through Mississippi Department of Education:		
Non-cash Assistance:		
Food donation	10.550	\$ 94,583
Team Nutrition	10.574	89
Child Nutrition Cluster:		
School breakfast program	10.553	202,178
National school lunch program	10.555	730,455
Total Child Nutrition Cluster		<u>932,633</u>
Total Passed-through MDE		<u>1,027,305</u>
Total U.S. Department of Agriculture		<u>1,027,305</u>
U.S. Department of Health and Human Services		
Passed-through Mississippi Department of Health and Human Services:		
Medical Assistance Program	93.778	<u>56,163</u>
Total U.S. Department of Health and Human Services		<u>56,163</u>
Federal Communications Commission		
Administered through the Universal Service Administration Company:		
The schools and libraries program of the Universal Service Fund	32.XXX	<u>71,633</u>
Total Federal Communications Commission		<u>71,633</u>
Corporation for National and Community Service		
Passed-through Mississippi Department of Education:		
Learn and serve America community based grants	94.004	<u>9,156</u>
Total Federal Communications Commission		<u>9,156</u>
U.S. Department of Education		
Direct		
Fund for the Improvement of Education	84.215	<u>210,089</u>
Passed-through Mississippi Department of Education:		
Special Education Cluster		
Special education - grants to states	84.027	821,000
Special education - preschool grants	84.173	41,155
Total Special Education Cluster		<u>862,155</u>
Title I grants to local educational agencies	84.010	699,437
State grants for innovative programs	84.298	6,729
Education technology state grants	84.318	11,711
Improving teacher quality - state grants	84.367	203,971
Vocational education-basic grants to states	84.048	36,419
Twenty-first century community learning centers	84.287	343,995
Education for homeless children and youth	84.196	23,097
Comprehensive school reform demonstration	84.332	53,649
Teacher quality enhancement grants	84.336	3,796
Hurricane education recovery	84.938	45,738
Safe & drug-free schools and communities-state grants	84.186	26,049
Total Passed-through MDE		<u>2,316,746</u>
Total U.S. Department of Education		<u>2,526,835</u>
Total for All Federal Awards		<u>\$ 3,691,092</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.

**ALCORN SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL, ADMINISTRATIVE, AND OTHER EXPENDITURES-
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Total</u>	<u>Instruction and Other Student Instructional Expenditures</u>	<u>General Administration</u>	<u>School Administration</u>	<u>Other</u>
Expenditures					
Salaries and fringe benefits	\$ 24,502,076	\$ 19,193,113	\$ 424,896	\$ 1,766,468	\$ 3,117,599
Other	<u>7,078,592</u>	<u>2,063,697</u>	<u>168,380</u>	<u>63,903</u>	<u>4,782,612</u>
Total	<u>31,580,668</u>	<u>21,256,810</u>	<u>593,276</u>	<u>1,830,371</u>	<u>7,900,211</u>
Total number of students	3,762				
Cost per student	\$ 8,395	\$ 5,650	\$ 158	\$ 487	\$ 2,100

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

ALCORN SCHOOL DISTRICT

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**INDEPENDENT AUDITORS' 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
Alcorn School District

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Alcorn School District as of and for the year ended June 30, 2007, which collectively comprise Alcorn School District's basic financial statements and have issued our report thereon dated August 18, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the school district's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the school district's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Alcorn School District's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the school district's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the school district's financial statements that is more than inconsequential will not be prevented or detected by the school district's internal control. We consider the deficiency numbered 2007-1 described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the school district's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the item noted above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Alcorn School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, which is described in the Schedule of Findings and Questioned Costs as Finding 2007-2. We also noted certain immaterial instances of noncompliance that we have reported to management of the school district in a separate letter dated August 18, 2008, which is included in this report.

Alcorn School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the school district's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the school board, 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.

Branan Vornstony & Company, P. A.

August 18, 2008
Corinth, Mississippi



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**INDEPENDENT AUDITORS' 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
Alcorn School District

Compliance

We have audited the compliance of the Alcorn 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, 2007. Alcorn County School District's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Alcorn 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, Alcorn 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, 2007.

Internal Control Over Compliance

The management of the Alcorn School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the school district's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the school board, 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.

Branan Vornotony & Company, P. A.

August 18, 2008
Corinth, Mississippi



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Superintendent and School Board
Alcorn School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Alcorn School District as of and for the year ended June 30, 2007, which collectively comprise Alcorn School District's basic financial statements and have issued our report thereon dated August 18, 2008. We conducted our audit in accordance with auditing standards, generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$55,778 of classroom supply funds carried over from previous years.

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

The results of our procedures performed to test compliance with the requirements of Section 37-9-18(3)(b), Miss. Code Ann. (1972), disclosed no instances of noncompliance related to incorrect or inappropriate functional level expenditure coding.

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

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

Finding MS2007-1

As reported in the prior year, during our testing of payroll expenditures, we noted that substitute bus drivers are not paid by the district. Instead, regular bus drivers are responsible for paying for their own substitute. Furthermore, background checks and fingerprinting are not performed on these people. This is a violation of Section 37-9-17, which requires criminal background checks and fingerprinting for all employees of the school district. Also, drivers who are a part of the Public Employees Retirement System (PERS) are being erroneously credited with retirement contributions on wages they did not earn, however, no records are available to determine overpayments to the retirement system. There is also the possibility that the district's liability insurance carrier or workers' compensation insurance carrier would not pay claims in the event a substitute bus driver not known by them has an accident or is accused in a harassment or assault case, or gets injured on the job.

Recommendation

We recommend the school district immediately take steps to correct this violation. Procedures should be implemented to ensure all employees, before performing any duties as an employee of the school district, have been fingerprinted and a criminal background check has been performed and is satisfactory. Also, all employment information should be updated with insurance carriers.

School District's Response

The Alcorn School District is currently implementing procedures to ensure that employees, before performing duties as an employee of the school district, have been fingerprinted and a criminal background check has been performed and is satisfactory. We also are ensuring that employment information is being updated with insurance carriers. We will have the plan implemented for the 2008-2009 school year. The substitute drivers will not be paid by the regular bus drivers but by the district and substitute drivers will follow procedures required by regular employees of the district.

Finding MS2007-2

During our tests of expenditures, we noted the following instance of noncompliance with state purchasing laws:

1. Numerous activity fund purchases had blank purchase orders.
2. Numerous activity fund purchases had no purchase orders.
3. Numerous activity fund purchases had purchase orders dated subsequent to the actual purchase date.
4. Numerous activity fund purchases did not have proper receiving report information.
5. Activity funds were used to purchase gifts for faculty and staff.
6. Agency funds were used to pay bus drivers directly for field trips, instead of the drivers being paid through the payroll system and the agency funds reimbursing the district.
7. We noted two instances of split invoices in the activity funds where quotes should have been obtained but were not.
8. We noted four instances of activity fund purchases requiring quotes where none were obtained.
9. Numerous purchases were noted where the purchase amount exceeded the purchase order
10. Instances were noted where the purchase order was dated subsequent to the actual purchase.
11. Instance were noted where no purchase order was found.

Recommendation

We recommend the school district take the necessary steps to correct these violations of purchasing laws. Procedures should be implemented to ensure that no purchases are made without a properly approved purchase order; that purchases are made without obtaining the proper quotes or bids, as applicable; and that purchases are for valid purposes. All staff authorized to approve purchases should be educated as to the proper purchasing procedures.

School District's Response

The Alcorn School district is currently in the process of restructuring our internal controls to address the issues outlined in this finding. We will implement these procedures during fiscal year 2009.

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 ensure that corrective action has been taken.

This report is intended solely for the information and use of the school board, 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.

Branon Vomstouy & Company, P. A.

August 18, 2008
Corinth, Mississippi

**ALCORN SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONS COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

Section 1: Summary of Auditors' Results

Financial Statements:

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

Federal Awards:

- | | | |
|-----|--|-------------|
| 4. | Type of auditors' report issued on compliance for major federal programs: | Unqualified |
| 5. | Internal control over major programs: | |
| a. | Material weakness(es) identified? | No |
| b. | Reportable conditions identified that are not considered to be material weaknesses? | No |
| 6. | Any audit findings reported as required by Section __.510 (a) of OMB Circular A-133? | No |
| 7. | Federal programs identified as major programs: | |
| a. | Child Nutrition Cluster
CFDA #10.553
CFDA #10.555 | |
| b. | Title I Grants to Local Educational Agencies
CFDA #84.010 | |
| c. | Special Education Cluster
CFDA #84.027
CFDA #87.173 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | No |
| 10. | Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section __.315(b) of OMB Circular A-133? | No |

ALCORN SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONS COSTS
FOR THE YEAR ENDED JUNE 30, 2007

Section 2: Financial Statement Findings

Significant Deficiencies that are Material Weaknesses

Finding 2007-1

Condition: As reported in the prior year, necessary controls are not in place to safeguard activity funds. We noted the following:

1. Receipt numbers are not noted on deposit slips; therefore, deposit slips cannot be matched to receipts.
2. Some deposit slips were missing from the records.
3. Some receipts were missing from the records.
4. Some deposits did not match written receipts.
5. No controls were in place to ensure the proper amount was collected and deposited for gate receipts. Gate receipt reports were incomplete or improperly completed. Receipts were not deposited on a timely basis; multiple games spanning weeks were included on one deposit slip. Some deposits had no gate receipt report. Some schedules were not provided in order to be tested.

Criteria: Internal controls should be in place to provide reasonable assurance to safeguard activity funds and their proper capture into the accounting records.

Cause: Internal controls over activity funds are inadequately designed or non-existent.

Effect: Because of inadequate internal controls, misappropriation of assets could occur and not be detected by the district's system of internal controls.

Recommendation: We recommend the school district implement internal controls such as, but not limited to, the following:

1. All deposit slips should be reconciled to the receipts, with all deposit slips showing each receipt number or range of receipt numbers.
2. A gate receipt form such as the one found in the *Financial Accounting Manual for Mississippi Public School Districts* should be utilized properly to account for gate receipt activity and any discrepancies investigated.
3. All monies collected should be deposited in a timely basis, in most instances, this should be no later than the next business day.
4. Review the *Financial Accounting Manual for Mississippi Public School Districts* to become familiar with the controls and procedures. Also, staff training may need to be conducted to better prepare staff for the performance of their duties.

School District's Response

Finding 2007-1 is being addressed by continuing to re-evaluate our internal controls regarding activity funds in order to correct the findings of this audit.

Material Noncompliance

Finding 2007-2

Condition: The school district paid-off loans totaling \$86,837.82 that were not in the school district's name. These loans were in the names of two schools' booster clubs. These loans were used by the booster clubs to construct and equip field houses, on the school district's property, for football teams. The school board had signed a guaranty on one of the loans. The school district had consulted with their attorney regarding this matter.

**ALCORN SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONS COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

Section 2: Financial Statement Findings (Continued)

Material Noncompliance (Continued)

Finding 2007-2 (continued)

Effect: This is a violation of Title 37, Chapter 59 of the Mississippi Code Ann. (1972), regarding school district indebtedness. Also, it appears that Title 31, Chapter 7, Section 13, regarding bidding procedures for public purchases has been circumvented by these transactions.

Recommendation: We recommend the school district implement proper procedures in order to comply with state statutes regarding indebtedness and public purchases, which include, but are not limited to, educating management and staff about state purchasing and indebtedness statutes.

School District's Response

Finding 2007-2 has been addressed. The decision to make these expenditures was based on the advice given to the school district by our prior attorney.

Section 3: Federal Award Findings and Questioned Costs

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