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Amory Separate School District

Audited Financial Statements

June 30, 2007

J.E. Fortenberry, III, PC
Certified Public Accountant

FINANCIAL AUDIT REPORT

**Amory Separate School District
TABLE OF CONTENTS**

	PAGE #
FINANCIAL AUDIT REPORT	
Independent Auditor's Report on the Basic Financial Statements and Supplemental Information	4
Management's Discussion and Analysis	7
FINANCIAL STATEMENTS	
Exhibit A-Statement of Net Assets	17
Exhibit B-Statement of Activities	18
Exhibit C-Balance Sheet, Governmental Funds	20
Exhibit C-1- Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	22
Exhibit D-Statement of Revenues, Expenditures and Changes in Fund Balances, Governmental Funds	24
Exhibit D-1-Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	26
Exhibit E - Statement of Fiduciary Assets and Liabilities	27
Notes to the Financial Statements	28
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedules	43
Notes to the Required Supplementary Information	45
SUPPLEMENTAL INFORMATION	
Schedule 1 - Schedule of Expenditures of Federal Awards	47
Schedule 2 - Schedule of Instructional, Administrative, and Other Expenditures - Governmental Funds	48
INTERNAL CONTROL AND COMPLIANCE REPORTS	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Basic Financial Statements Performed in Accordance with "Government Auditing Standards" .	50
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	52
Independent Auditor's Report on Compliance with State Laws and Regulations	54
FINDINGS, CORRECTIVE ACTION PLAN AND AUDIT FOLLOW-UP	
Schedule of Findings and Questioned Costs	56
Auditee's Corrective Action Plan	59

J.E. FORTENBERRY, III, PC
Certified Public Accountant

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

Superintendent and School Board
Amory Separate School District

I have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Amory Separate School District as of and for the year ended June 30, 2007, which collectively comprise the Amory Separate School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Amory Separate School District's management. My responsibility is to express opinions on these financial statements based on my audit.

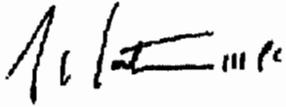
I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose 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. I believe that my audit provides a reasonable basis for my opinions.

In my 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 Amory Separate School District, as of 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*, I have also issued my report dated December 13, 2007 on my consideration of the Amory Separate School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The Management's Discussion and Analysis on pages (7) through (15) and the Budgetary Comparison Schedule and corresponding notes on pages (42) through (45) are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

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



J.E. Fortenberry, III, PC
December 13, 2007

Certified Public Accountant

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The discussion and analysis of Amory Separate 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 section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

FINANCIAL HIGHLIGHTS

- Total net assets increased \$954,707 which represents about 42% increase from fiscal year 2006.
- General revenues account for \$10,763,025 or 77% of all revenues. This amount was more than the general revenues reported for the year 2006 which consisted of \$10,143,010. Program specific revenues in the form of charges for services and grants and contributions for this year accounted for \$3,141,648 or 23% of total revenues compared with \$3,161,847 in 2006.
- The District had \$12,949,966 in expenses, an increase from \$12,234,479 in expenses for the prior year. Only \$3,141,648 of these expenses were offset by program specific charges for services, grants and contributions. The general revenues of \$10,763,025 were adequate to provide for these programs.
- Among major funds, the General Fund had \$10,115,958 in revenues and \$9,652,241 in expenditures. In 2006 the General Fund had \$9,569,456 in revenues and \$8,875,198 in expenditures. The General Fund's fund balance increased \$2,739,760 from the prior year.
- Capital assets, net of accumulated depreciation, decreased by \$1,294. One component of this decrease was the disposition of mobile equipment. The recording of depreciation expense for the year also contributed to the decrease.
- Long-term debt decreased by \$525,733.

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.

The government-wide financial statements can be found on pages 17 and 18 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide

financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 22 and 26, respectively.

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

The basic governmental fund financial statements can be found on pages 20 and 24 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The school district's fiduciary activities are presented in separate Statement of Fiduciary Assets and Liabilities on page 27.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28-41 of this report.

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund. This required supplementary information can be found on pages 42-45 of this report.

Additionally, a schedule of federal awards, required by OMB Cir. A-133 and a schedule of instructional, administrative and other expenditures for governmental funds can be found on pages 47 and 48 of 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 \$3,237,593 as of 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.

The following table presents a summary of the District's net assets for the fiscal years ended June 30, 2007 and 2006.

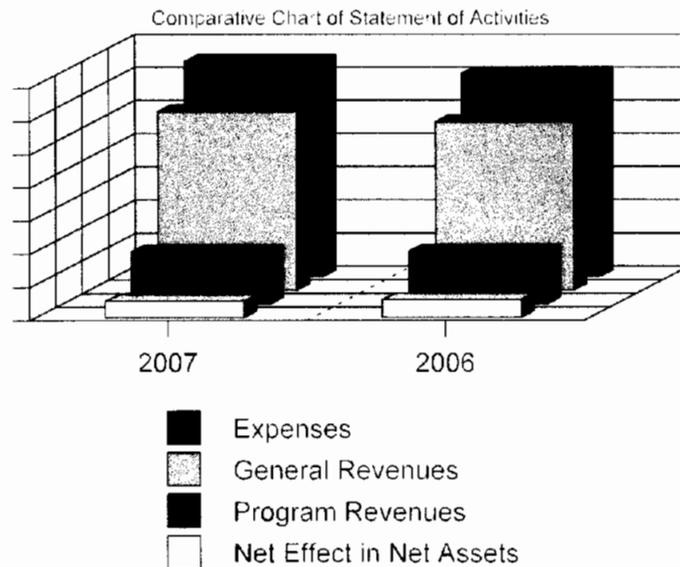
	2007	2006	Percentage Change
Assets			
Current assets	\$ 4,431,992	3,870,141	15%
Capital assets, net	2,897,788	2,899,082	0%
Total assets	7,329,780	6,769,223	8%
Liabilities			
Current liabilities	294,750	163,167	81%
Long-term liabilities	3,797,437	4,323,170	-12%
Total liabilities	4,092,187	4,486,337	-9%
Net Assets:			
Invested in capital assets, net of related debt	(817,212)	(1,340,918)	-39%
Restricted	1,458,787	1,458,094	0%
Unrestricted	2,596,018	2,165,710	20%
Total Net Assets	\$ 3,237,593	2,282,886	42%

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

- The principal retirement of \$525,000 of long-term debt.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2007 were \$13,904,673. The total cost of all programs and services was \$12,949,966. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2007 and 2006.

	<u>2007</u>	<u>2006</u>	<u>Percentage Change</u>
Revenues			
<u>Program Revenues</u>			
Charges for services	\$ 801,465	819,128	-2%
Operating Grants and Contributions	2,283,337	2,286,309	0%
Capital Grants and Contributions	56,846	56,410	1%
Total Program Revenues	<u>3,141,648</u>	<u>3,161,847</u>	-1%
<u>General Revenues</u>			
Property Taxes	2,056,254	2,004,689	3%
Unrestricted Grants and Contributions	8,560,928	8,001,726	7%
Unrestricted Investment Earnings	25,251	18,940	33%
Sixteenth Section Sources	4,707	5,255	-10%
Other	115,885	112,400	3%
Total General Revenues	<u>10,763,025</u>	<u>10,143,010</u>	6%
Total revenues	<u><u>13,904,673</u></u>	<u><u>13,304,857</u></u>	5%
Expenses			
Instruction	7,883,315	7,274,852	8%
Support services	3,749,085	3,649,690	3%
Non-instructional	1,178,835	1,161,081	2%
Interest on long-term liabilities	138,731	148,856	-7%
Total expenses	<u>12,949,966</u>	<u>12,234,479</u>	6%
Increase (Decrease) in net assets	<u>954,707</u>	<u>1,070,378</u>	-11%
Net Assets, July 1	2,282,886	1,210,687	89%
Prior Period Adjustment		1,821	-100%
Net Assets, June 30	<u>\$ 3,237,593</u>	<u>2,282,886</u>	42%

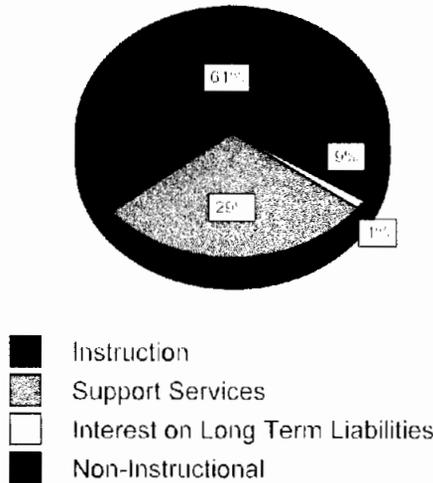


Governmental activities. The following table presents the cost of five major District functional activities: instruction, support services, non-instructional, and interest on long-term debt. The table also shows each function's net cost (total cost less charges for services generated by the activities 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.

- Net cost of governmental activities (\$9,808,318), was financed by general revenue, which is made up of primarily property taxes (\$2,056,254), investment earnings (\$25,251), sixteenth section sources (\$4,707) and state revenue (\$8,294,119).

	2007	2006	2007	2006
	Expenses	Expenses	Net (Expense) Revenue	Net (Expense) Revenue
Instruction	\$ 7,883,315	7,274,852	(6,118,076)	(5,489,317)
Support Services	3,749,085	3,649,690	(3,455,672)	(3,319,856)
Non-Instructional	1,178,835	1,161,081	(95,839)	(114,603)
Interest on Long-Term Liabilities	138,731	148,856	(138,731)	(148,856)
	\$ 12,949,966	12,234,479	(9,808,318)	(9,072,632)

Expense Chart as per Statement of Activities



SIS OF THE DISTRICT'S FUNDS

FINANCIAL ANALY-

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

Governmental funds. The focus of the District's governmental funds is to provide information on current inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve

as a useful measure of the District's net resources available for spending at the end of the fiscal year.

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$4,192,767, an increase of \$421,931. \$3,042,118 or 73% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$1,150,649 or 27% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$450,388. The fund balance of Other Governmental Funds showed a decrease of \$53,882. The fund balance of the 1994 GO Bond and Interest Fund increased \$25,425.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget. Historical data, tentative allocations of state and federal funds, legislative mandates, and anticipated needs are used to determine original budget amounts.

The District's original budget was prepared with the district's goals and long range commitments in mind, using historical data, tentative allocations or estimates of state and federal funds, legislative mandates, staffing studies, and current and anticipated needs. Over the course of the year, the District revised the annual operating budget as changes occurred.

Budget amounts for revenue from local, state and federal sources in the General Fund were less than the amount originally budgeted due to less than anticipated other operating transfers in.

Budget amounts in the General Fund for expenditures were less than the amount budgeted due to conservation efforts on utility costs made costs to go down below budget. Also, major repair costs budgeted for at all schools were not needed.

At the time the original budget was prepared only estimates were available for federal funding. Typically original budgets are prepared using prior year allocation as estimates. Once federal awards were known, budgets were amended to the actual grant award amount.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2007, the District's total capital assets were \$11,496,089, including land, school buildings, buses, other school vehicles, and furniture and equipment. This amount represents an decrease of \$77,018 from the previous year. One major component of this decrease was the disposition of mobile equipment during the year. Total accumulated depreciation as of June 30, 2007 was \$8,598,301 and total depreciation expense for the year was \$132,264, resulting in total net capital assets of \$2,897,788.

	Capital Assets, Net of Depreciation		Percentage Change
	2007	2006	
Land	\$ 64,885	64,885	0%
Buildings	2,548,918	2,604,771	-2%
Improvements other than buildings	522	522	0%
Mobile equipment	276,960	219,460	26%
Furniture and equipment	6,503	9,444	-31%
	<u>\$ 2,897,788</u>	<u>2,899,082</u>	<u>0%</u>

Additional information of the District's capital assets can be found in Note 4 on page 38 of this report.

Debt Administration. At June 30, 2007, the District had \$1,225,000 in general obligation bonds outstanding and \$2,572,437 in other long-term debt outstanding, of which \$560,000 is due within one year. The District maintains an AA bond rating.

			Percentage Change
	2007	2006	
General obligation bonds payable	\$ 1,225,000	1,600,000	-23%
Limited obligation bonds payable	2,490,000	2,640,000	-6%
Compensated absences	82,437	83,170	-1%
	<u>\$ 3,797,437</u>	<u>4,323,170</u>	<u>-12%</u>

Additional information of the District's long-term debt can be found in Note 5 on page 38 of this report.

CURRENT ISSUES

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Amory Separate School District, PO Box 330, Amory, MS 38821.

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FINANCIAL STATEMENTS

AMORY SEPARATE SCHOOL DISTRICT

STATEMENT OF NET ASSETS

JUNE 30, 2007

	<u>Governmental Activities</u>
ASSETS	
Assets:	
Cash and other deposits	\$ 3,783,504
Cash with fiscal agents	102,984
Due from other governments	514,757
Inventories and prepaid items	30,747
Capital Assets, non-depreciable	
Land	64,885
Capital Assets, net of accumulated depreciation	
Buildings	2,548,918
Improvements other than buildings	522
Mobile equipment	276,960
Furniture and equipment	6,503
Total Assets	<u><u>7,329,780</u></u>
Liabilities	
Accounts payable and accrued liabilities	239,225
Interest payable on long-term liabilities	55,525
Long-term liabilities (due within one year):	
Capital related liabilities	560,000
Long-term liabilities (due beyond one year)	
Capital related liabilities	3,155,000
Non-capital related liabilities	82,437
Total Liabilities	<u><u>4,092,187</u></u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	(817,212)
Restricted For:	
School Based Activities	333,105
Debt Service	1,004,180
Capital Improvements	78,502
Unemployment Benefits	43,000
Unrestricted	2,596,018
Total Net Assets	<u><u>\$ 3,237,593</u></u>

The accompanying notes are an integral part of this statement.

AMORY SEPARATE SCHOOL DISTRICT
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2007

Functions/Programs	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions		
Primary government					
Governmental Activities:					
Instruction	7,883,315	344,290	1,364,103	56,846	(6,118,076)
Support services	3,749,085	32,095	261,318	--	(3,455,672)
Noninstructional services	1,178,835	425,080	657,916	--	(95,839)
Interest on long-term liabilities	138,731	--	--	--	(138,731)
Total Primary Government	<u>\$ 12,949,966</u>	<u>\$ 801,465</u>	<u>\$ 2,283,337</u>	<u>\$ 56,846</u>	<u>(9,808,318)</u>
General Revenues:					
Taxes:					
General purpose levies					2,056,254
Unrestricted grants and contributions:					
State					8,294,119
Federal					266,809
Unrestricted investment earnings					25,251
Sixteenth section sources					4,707
Other					115,885
Total general revenues					<u>10,763,025</u>
Change in Net Assets					954,707
Net Assets - Beginning					2,282,886
Net Assets - Ending					<u>\$ 3,237,593</u>

The accompanying notes are an integral part of this statement.

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AMORY SEPARATE SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2007

	<u>General Fund</u>	<u>Title I - A Basic Fund</u>
ASSETS		
<i>Cash and cash equivalents</i>	\$ 2,621,305	\$ --
<i>Cash with fiscal agents</i>	--	--
<i>Due from other governments</i>	160,018	62,585
<i>Due from other funds</i>	172,824	--
<i>Inventories and prepaid items</i>	--	--
Total Assets	<u>\$ 2,954,147</u>	<u>\$ 62,585</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
<i>Accounts payable and accrued liabilities</i>	\$ 186,664	\$ --
<i>Due to other funds</i>	27,723	62,585
Total Liabilities	<u>214,387</u>	<u>62,585</u>
Fund balances:		
Reserved for:		
<i>Inventory</i>	--	--
<i>Unemployment</i>	--	--
<i>Debt service funds</i>	--	--
<i>Capital project funds</i>	--	--
Unreserved, undesignated, reported in:		
<i>General fund</i>	2,739,760	--
<i>Special Revenue funds</i>	--	--
Total Fund Balances	<u>2,739,760</u>	<u>--</u>
Total Liabilities and Fund Balances	<u>\$ 2,954,147</u>	<u>\$ 62,585</u>

EXHIBIT C

1994 GO Bond & Interest Fund	Other Governmental Funds	Total Governmental Funds
\$ 742,569	\$ 419,630	\$ 3,783,504
—	102,984	102,984
11,906	280,248	514,757
27,724	—	200,548
—	30,747	30,747
<u>\$ 782,199</u>	<u>\$ 833,609</u>	<u>\$ 4,632,540</u>
\$ 27,724	\$ 24,837	\$ 239,225
—	110,240	200,548
<u>27,724</u>	<u>135,077</u>	<u>439,773</u>
—	30,747	30,747
—	43,000	43,000
754,475	243,925	998,400
—	78,502	78,502
—	—	2,739,760
—	302,358	302,358
<u>754,475</u>	<u>698,532</u>	<u>4,192,767</u>
<u>\$ 782,199</u>	<u>\$ 833,609</u>	<u>\$ 4,632,540</u>

AMORY SEPARATE SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2007

Total fund balances - governmental funds balance sheet	\$ 4,192,767
Amounts reported for governmental activities in the statement of net assets ("SNA") are different because:	
Capital assets used in governmental activities are not reported in the funds.	2,897,788
Liabilities due in one year are reported in the SNA but not in the funds.	(560,000)
Payables for bond principal which are not due in the current period are not reported in the funds.	(3,155,000)
Payables for bond interest which are not due in the current period are not reported in the funds.	(55,525)
Payables for compensated absences not due in the current period are not reported in the funds.	<u>(82,437)</u>
Net assets of governmental activities - statement of net assets	<u>\$ 3,237,593</u>

The accompanying notes are an integral part of this statement.

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AMORY SEPARATE SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	General Fund	Title I - A Basic Fund
Revenue:		
Local sources	\$ 2,107,929	\$ --
Intermediate sources	--	--
State sources	7,737,917	--
Federal sources	270,112	391,856
Sixteenth section sources	--	--
Total revenues	<u>10,115,958</u>	<u>391,856</u>
Expenditures:		
Instruction	6,452,457	270,014
Support services	3,179,673	121,842
Noninstructional services	20,111	--
Facilities acquisition and construction	--	--
Debt service:		
Principal	--	--
Interest	--	--
Total expenditures	<u>9,652,241</u>	<u>391,856</u>
Excess (deficiency) of revenues (over) expenditures	463,717	--
Other financing sources (uses):		
Sale of transportation equipment	1,738	--
Operating transfers in	--	--
Operating transfers out	(15,067)	--
Total other financing sources (uses)	<u>(13,329)</u>	<u>--</u>
Net change in fund balance	450,388	--
Fund Balances:		
July 1, 2006	2,289,372	--
Increase (decrease) in reserve for inventory	--	--
June 30, 2007	<u>\$ 2,739,760</u>	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

EXHIBIT D

1994 GO Bond & Interest Fund	Other Governmental Funds	Total Governmental Funds
\$ 427,253	\$ 475,940	\$ 3,011,122
--	5,000	5,000
--	999,543	8,737,460
--	1,484,416	2,146,384
--	4,707	4,707
<u>427,253</u>	<u>2,969,606</u>	<u>13,904,673</u>
--	1,064,002	7,786,473
1,650	556,432	3,859,597
--	1,138,059	1,158,170
--	9,996	9,996
375,000	150,000	525,000
25,178	120,066	145,244
<u>401,828</u>	<u>3,038,555</u>	<u>13,484,480</u>
25,425	(68,949)	420,193
--	--	1,738
--	15,067	15,067
--	--	(15,067)
<u>--</u>	<u>15,067</u>	<u>1,738</u>
25,425	(53,882)	421,931
729,050	749,857	3,768,279
--	2,557	2,557
<u>\$ 754,475</u>	<u>\$ 698,532</u>	<u>\$ 4,192,767</u>

AMORY SEPARATE 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*

Net change in fund balances - total governmental funds	\$ 421,931
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	136,965
The depreciation of capital assets used in governmental activities is not reported in the funds.	(132,264)
The gain or loss on the sale of capital assets is not reported in the funds.	(4,257)
All proceeds from the sale of capital assets are reported in the funds but not in the SOA.	(1,738)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	525,000
(Increase) decrease in accrued interest from beginning of period to end of period	5,780
Change in inventory is an adjustment to fund balance in the funds but affects expense in the SOA.	2,557
Compensated absences reported as amount earned in SOA but as amount paid in the funds.	<u>733</u>
Change in net assets of governmental activities - statement of activities	<u>\$ 954,707</u>

The accompanying notes are an integral part of this statement.

AMORY SEPARATE SCHOOL DISTRICT
STATEMENT FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2007

	<u>Agency Funds</u>
ASSETS	
Assets:	
<i>Cash and other deposits</i>	\$ 490,988
Total Assets	<u>\$ 490,988</u>
LIABILITIES	
Liabilities:	
<i>Accounts payable and accrued liabilities</i>	\$ 444,847
<i>Due to student clubs</i>	46,141
Total Liabilities	<u>\$ 490,988</u>

The accompanying notes are an integral part of this statement.

Amory Separate School District

Notes to the Financial Statements
June 30, 2007

Amory Separate 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 an "stand-alone government." The school district is a related organization of, but not a component unit of, the Town of Amory Separate since the governing authority of the town selects a majority of the school district's board but does not have financial accountability for the school district.

B. Basis of Presentation.

The school district's basic financial statements consist of government-wide statements 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 reporting government as a whole. They include all the funds of the reporting entity except for the fiduciary funds, if applicable. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange 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

Amory Separate School District

Notes to Financial Statements
For the Year Ended June 30, 2007

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

C. Measurement Focus and Basis of Accounting.

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

In the fund financial statements, governmental funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end. Property taxes, state appropriations and federal awards associated with the current fiscal period are all considered to be susceptible to accrual and 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 - The General Fund is the school district's primary operating fund. It is used to account for all financial resources of the school district, except those required to be accounted for in another fund.

Amory Separate School District

Notes to Financial Statements
For the Year Ended June 30, 2007

Title I- A Basic Fund - This is the school district's federally funded program offering remedial mathematics, language arts, and reading instruction to eligible students under a school-wide structured project.

1994 GO Bond & Interest Fund - This fund is used to account for the servicing of debt service principal and interest expenditures.

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 major capital projects) that are legally restricted for specific expenditure purposes.

Capital Project 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

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 result of operations.

D. Account Classifications.

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

E. Encumbrances.

Amory Separate School District

Notes to Financial Statements
For the Year Ended June 30, 2007

An encumbrance system is not maintained to account for commitments resulting from approved purchase orders, work orders and contracts. Accordingly, no encumbrances were outstanding at year-end.

F. Cash and Cash Equivalents.

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

Cash and cash equivalents consist of amounts on deposit in demand account 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 is allowed, by statute, to invest excess fund, as permitted by Section 29-3-113 Miss. Code Ann. (1972), in interest-bearing deposits or other obligations of the type described in Sections 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 of 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 cost 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.

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.

Amory Separate School District

Notes to Financial Statements
For the Year Ended June 30, 2007

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 assets accounts) and estimated useful lives of capital assets are reported in the government-wide statements.

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

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

(*) The threshold amounts 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.

Amory Separate School District

Notes to Financial Statements
For the Year Ended June 30, 2007

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

Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 3 for details for interfund transactions, including receivables and payables at year-end.

L. Equity Classifications.

Government-Wide Financial Statements:

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

- a. 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.
- b. 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.
- c. 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 all 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.

Amory Separate School District

Notes to Financial Statements
For the Year Ended June 30, 2007

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

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

Reserved of capital projects - An account that represents that portion of fund balance in the Capital Projects Fund which was legally restricted and not available for spending for any other purpose than that for which it is restricted.

Unreserved, undesignated - An account that represents the portion of fund balance that is expendable available financial resources.

M. Property Taxes.

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

N. Mississippi Adequate Education Program Revenues

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

O. Compensated Absences.

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

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

Amory Separate School District

Notes to Financial Statements
For the Year Ended June 30, 2007

(2) Cash and Cash Equivalents, and Cash with Fiscal Agents.

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

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

The carrying amount of the district's deposits with financial institutions reported in governmental funds and fiduciary funds was \$3,783,504, and \$490,988 respectively. The carrying amount of deposits reported in the government wide statements was: cash and cash equivalents \$3,783,504. The bank balance was \$4,651,973.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi state Treasurer manages that risk on behalf of the district. Deposits above the FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2007, none of the district's bank balance of \$4,651,973 was exposed to custodial credit risk.

Cash with Fiscal Agents.

The carrying amount of the school district's cash with fiscal agents held by financial institutions was \$102,984.

(3) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

Amory Separate School District

Notes to Financial Statements
For the Year Ended June 30, 2007

	<u>Due From</u>	<u>Due To</u>
Governmental funds:		
General fund	\$ 172,824	27,723
Title I - A Basic Fund	0	62,585
1994 GO Bond & Interest Fund	27,724	0
Other governmental funds	<u>0</u>	<u>110,240</u>
Total Funds	<u>\$ 200,548</u>	<u>200,548</u>

The purpose of the Due From/To other funds balances was to provide funds for operating purposes. All balances are expected to be repaid within one year from the date of the financial statements.

B. Transfers In/Out.

	<u>Transfer In</u>	<u>Transfer Out</u>
Governmental funds:		
General fund	\$ 0	15,067
Other governmental funds	<u>15,067</u>	<u>0</u>
Total Funds	<u>\$ 15,067</u>	<u>15,067</u>

The purpose of the transfers was to provide funds for operating purposes. All transfers were routine and consistent with the fund making the transfer.

(4) Capital Assets.

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

	<u>Balance 7-1-2006</u>	<u>Addition</u>	<u>Retirement</u>	<u>Completed Construction</u>	<u>Adjustments</u>	<u>Balance 6-30-2007</u>
<u>Non-depreciable capital assets:</u>						
Land	\$ 64,885					64,885
Construction in progress						0
Total non-depreciable capital assets	<u>64,885</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>64,885</u>
<u>Depreciable capital assets:</u>						
Buildings	10,338,823					10,338,823
Improvements other than buildings	52,179					52,179
Mobile equipment	901,246	136,965	59,947			978,264
Furniture and equipment	61,938					61,938
Total depreciable capital assets	<u>11,354,186</u>	<u>136,965</u>	<u>59,947</u>	<u>0</u>	<u>0</u>	<u>11,431,204</u>
<u>Less accumulated depreciation for:</u>						
Buildings	7,734,052	55,853				7,789,905

Amory Separate School District

Notes to Financial Statements For the Year Ended June 30, 2007

Improvements other than buildings	51,657	0				51,657
Mobile equipment	681,786	73,470	53,952			701,304
Furniture and equipment	52,494	2,941				55,435
Total accumulated depreciation	<u>8,519,989</u>	<u>132,264</u>	<u>53,952</u>		<u>0</u>	<u>8,598,301</u>
Total depreciable capital assets, net	<u>2,834,197</u>	<u>4,701</u>	<u>5,995</u>	<u>0</u>	<u>0</u>	<u>2,832,903</u>
Rounding difference						
Governmental activities capital assets, net	<u>2,899,082</u>	<u>4,701</u>	<u>5,995</u>	<u>0</u>	<u>0</u>	<u>2,897,788</u>

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$ 92,585
Support services	26,453
Non-Instructional	<u>13,226</u>
Total depreciation expense	<u>\$132,264</u>

(5) Long-term liabilities.

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

	Balance 7-1-2006	Additions	Reductions	Adjustments	Balance 6-30-2007	Amounts due within one year
A. General obligation bonds payable	\$ 1,600,000		375,000	0	1,225,000	400,000
B. Limited obligations bonds payable	2,640,000		150,000	0	2,490,000	160,000
C. Compensated absences payable	83,170		733		82,437	
Total	<u>\$ 4,323,170</u>	<u>0</u>	<u>525,733</u>	<u>0</u>	<u>3,797,437</u>	<u>560,000</u>

A. General Obligation Bonds Payable.

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
General Obligation Ref. Bonds, Series 2003	variable	3/1/03	9/01/09	\$2,635,000	\$1,225,000

Amory Separate School District

Notes to Financial Statements
For the Year Ended June 30, 2007

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	20,130	420,130
2009	405,000	13,080	418,080
2010	<u>420,000</u>	<u>4,515</u>	<u>424,515</u>
Total	\$ <u>1,225,000</u>	<u>37,725</u>	<u>1,262,725</u>

The amount of bonded indebtedness that can be incurred by the school district is limited by state statute. Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property, within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in state statutes, have been met. As of June 30, 2007, the amount of outstanding bonded indebtedness was equal to 1.81% of property assessments (\$67,700,452) as of October 1, 2006. This debt will be retired from the Bond and Interest Refunding Fund.

B. Limited Obligation Bonds Payable.

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

<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 Ref. Bonds, Series 1998	variable	6/15/98	2/01/18	\$3,325,000	\$2,490,000

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

Year Ending June 30,	Principal	Interest	Total
2008	\$ 160,000	111,234	271,234
2009	165,000	104,001	269,001
2010	175,000	96,351	271,351
2011	185,000	88,251	273,251
2012	195,000	79,604	274,604
2013-2017	1,120,000	249,021	1,369,021
2017-2022	<u>490,000</u>	<u>16,766</u>	<u>506,766</u>
Total	\$ <u>2,490,000</u>	<u>745,228</u>	<u>3,235,228</u>

Amory Separate School District

Notes to Financial Statements
For the Year Ended June 30, 2007

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 the Adequate Education Act, Sections 37-151-1 through 37-151-107 of the Mississippi Code Ann. (1972). The state aid capital improvement bonds are not included in the computation of the debt limit percentage.

This debt will be retired from the MAEP Bond Fund.

C. Compensated Absences.

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

(6) Defined Benefit Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary and the school district is required to contribute at an actuarially determined rate. The current rate is 11.30% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2007, 2006, and 2005 were \$844,323, \$777,396, and \$679,559, respectively, which equaled the required contributions for each year.

(7) 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.

Participation in Public Entity Risk Pool.

Amory Separate School District

Notes to Financial Statements
For the Year Ended June 30, 2007

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 121 school districts and one community college and covers risks of loss arising from injuries to the member's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Bancorp South Bank in Jackson. The funds in the trust account are used to pay any claim up to \$700,000. For a claim exceeding \$700,000, MSBAWCT has insurance which will pay the excess up to the statutory amount required by the Mississippi Workers Compensation Commission Act. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

(8) Litigation.

The school district is party to the legal proceeding Lanika Smith et al vs. Amory Separate School District et al; Monroe County Circuit Court No 96-049 PFM; filed 1996. It is not possible at the present time to estimate the ultimate outcome or liability, if any, of the school district, with respect to the proceedings.

AMORY SEPARATE SCHOOL DISTRICT
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2007

Exhibit I

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 2,010,189	2,107,926	2,107,929	97,737	3
State sources	7,965,747	7,737,916	7,737,917	(227,831)	1
Federal sources	191,000	270,113	270,112	79,113	(1)
Total Revenues	<u>10,166,936</u>	<u>10,115,955</u>	<u>10,115,958</u>	<u>(50,981)</u>	<u>3</u>
Expenditures:					
Instruction	6,176,360	6,457,042	6,452,457	(280,682)	4,585
Support services	3,262,735	3,151,948	3,179,673	110,787	(27,725)
Noninstructional services	495,000	20,110	20,111	474,890	(1)
Total Expenditures	<u>9,934,095</u>	<u>9,629,100</u>	<u>9,652,241</u>	<u>304,995</u>	<u>(23,141)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>232,841</u>	<u>486,855</u>	<u>463,717</u>	<u>254,014</u>	<u>(23,138)</u>
Other Financing Sources (Uses):					
Insurance Loss Recoveries	2,500			(2,500)	0
Sale of transportation equipment	1,000	1,738	1,738	738	0
Sale of property	1,000			(1,000)	0
Transfers In	330,000			(330,000)	0
Transfers Out	(95,200)	(15,067)	(15,067)	80,133	0
Total Other Financing Sources (Uses)	<u>239,300</u>	<u>(13,329)</u>	<u>(13,329)</u>	<u>(252,629)</u>	<u>0</u>
Net Change in Fund Balances	<u>472,141</u>	<u>473,526</u>	<u>450,388</u>	<u>1,385</u>	<u>(23,138)</u>
Fund Balances:					
July 1, 2006			2,289,372	0	2,289,372
Prior period adjustments (Note)					
July 1, 2006, as restated	<u>0</u>	<u>0</u>	<u>2,289,372</u>	<u>0</u>	<u>2,289,372</u>
Residual equity transfer in (out)			0	0	0
June 30, 2007	<u>\$ 472,141</u>	<u>473,526</u>	<u>2,739,760</u>	<u>0</u>	<u>2,266,234</u>

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

AMORY SEPARATE SCHOOL DISTRICT

Exhibit 2

Budgetary Comparison Schedule

Title I - A Basic Fund

For the Year Ended June 30, 2007

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 457,000	391,856	391,856	(65,144)	0
Total Revenues	457,000	391,856	391,856	(65,144)	0
Expenditures:					
Instruction	330,790	270,015	270,014	60,775	1
Support services	137,807	121,842	121,842	15,965	0
Total Expenditures	468,597	391,857	391,856	76,740	1
Excess (Deficiency) of Revenues Over Expenditures	(11,597)	(1)	0	11,596	1
Other Financing Sources (Uses):					
Other financing sources				0	0
Other financing uses				0	0
Total Other Financing Sources (Uses)	0	0	0	0	0
Net Change in Fund Balances	(11,597)	(1)	0	11,596	(1)
Fund Balances:					
July 1, 2006				0	0
Prior period adjustments (Note)					
July 1, 2006, as restated	0	0	0	0	0
June 30, 2007	\$ (11,597)	(1)	0	11,596	1

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

Amory Separate 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 Schedule presents the original legally adopted budget, the final legally adopted budget, the actual data on the GAAP basis, variances between the original budget and the final budget, and variances between the final budget and the actual data.

(2) Budget amendments and revisions.

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

SUPPLEMENTAL INFORMATION

Amory Separate School District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2007

Schedule 1

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	Catalog of Federal Domestic Assistance Number	Federal <u>Expenditures</u>
U. S. DEPARTMENT OF AGRICULTURE/ Passed-through the Mississippi Department of Education:		
Non-cash assistance:		
Food Donation	10.550	\$59,215
Child Nutrition Cluster:		
School Breakfast Program	10.553	155,820
National School Lunch Program	10.555	452,670
Total child nutrition cluster		<u>608,490</u>
TOTAL U. S. DEPARTMENT OF AGRICULTURE		667,705
FEDERAL COMMUNICATION COMMISSION		
Administered through Universal Service Administrative Company:		
The school and libraries program of the Universal Service Fund	32.xxx	42,109
Total Federal Communication Commission		<u>42,109</u>
U. S. DEPARTMENT OF EDUCATION/ Passed-through the Mississippi Department of Education:		
Title I Grants to Local Educational Agencies	84.010	391,856
Vocational Education - Basic Grant to States	84.048	18,031
Safe and Drug Free Schools and Communities - State Grants	84.186	9,119
Twenty-first century community learning centers	84.287	186,699
State Grants for Innovative Programs	84.298	7,799
Education technology state grants	84.318	3,908
Comprehensive School Reform Demonstration	84.332	9,101
Rural Education	84.358	39,650
Improving teacher quality - state grants	84.367	67,962
Total		<u>734,125</u>
Special Education Cluster:		
Special Education - Grants to States	84.027	436,511
Special Education - Preschool Grants	84.173	29,302
Total special education cluster		<u>465,813</u>
Total passed-through the MDE		<u>1,199,938</u>
TOTAL U. S. DEPARTMENT OF EDUCATION		<u>1,199,938</u>
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE		
Passed through the Mississippi Department of Education:		
Learn and Serve America - School and Community Based Program	94.004	8,629
Total Corporation for National and Community Service		<u>8,629</u>
TOTAL FOR ALL FEDERAL AWARDS		<u><u>\$1,918,381</u></u>

Notes to Schedule

1. This schedule was prepared using the same basis of accounting and 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.

Amory Separate School District
 Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
 For the Year Ended June 30, 2007

	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 10,059,853	7,844,441	373,791	732,020	1,109,601
Other	3,424,627	971,877	123,138	32,549	2,297,063
Total	\$ 13,484,480	8,816,318	496,929	764,569	3,406,664
Total number of students *	1,759				
Cost per student	\$ 7,666	5,012	283	435	1,937

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

- Instruction and other Student Instructional Expenditures** - includes the activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teachers aides or classroom assistants of any type. (all the 1000, 2100 & 2200 functional codes)
- General Administration** - includes expenditures for the following functions: Support Services - General Administration (2300s); Support Services - Business (2500s)
- School Administration** - includes expenditures for the following functions: Support Services - School Administration (2400s)
- Other** - includes all expenditure functions not included in Instruction or Administration categories

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

INTERNAL CONTROL AND COMPLIANCE REPORTS

J.E. FORTENBERRY, III, PC
Certified Public Accountant

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

Superintendent and School Board
Amory Separate School District

I have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Amory Separate School District as of and for the year ended June 30, 2006, and have issued my report thereon dated December 13, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the school district's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion 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, I do not express an opinion on the effectiveness of the school district's internal control over financial reporting.

My consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. However, as discussed below, I identified a certain deficiency in internal control over financial reporting that I 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 material misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. I consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 07-1 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.

AICPA, MSCPA

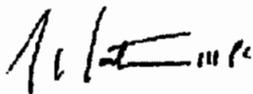
1929 Spillway Road, Suite B Brandon, MS 39047, Telephone (601) 992-5292

My consideration of 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, I believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

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

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



J.E. Fortenberry, III, PC
December 13, 2007

Certified Public Accountant

J.E. FORTENBERRY, III, PC
Certified Public Accountant

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

Superintendent and School Board
Amory Separate School District

Compliance

I have audited the compliance of the Amory Separate 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. The school district's major federal programs are identified in the summary of the auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contract and grants applicable to each of its major federal programs is the responsibility of the school district's management. My responsibility is to express an opinion on the school district's compliance based on my audit.

I conducted my audit of compliance 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, and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and OMB Circular A-133 require that I 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 I considered necessary in the circumstances. I believe my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the school district's compliance with those requirements.

In my opinion, the Amory Separate 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 Amory Separate 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 my audit, I 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 my auditing procedures for the purpose of expressing my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the school district's internal control over compliance.

My consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's

internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, I identified a certain deficiency in internal control over compliance that I consider to be a significant deficiency.

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 combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is 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. I consider the deficiency in the internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as Finding 07-2 to be a significant deficiency.

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. However, I believe that the significant deficiency described above is not a material weakness.

Amory Separate School District's response to the finding identified in my audit is described in the accompanying Schedule of Findings and Questioned Costs. I did not audit Amory Separate School District's response and, accordingly, I express no opinion on it.

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



J.E. Fortenberry, III, PC
December 13, 2007

Certified Public Accountant

J.E. FORTENBERRY, III, PC
Certified Public Accountant

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

Superintendent and School Board
Amory Separate School District

I have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Amory Separate School District as of and for the year ended June 30, 2007, which collectively comprise Amory Separate School District's basic financial statements and have issued my report thereon dated December 13, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Section 37-9-18(3)(a), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure that the school district is complying with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds". As required by the state legal compliance audit program prescribed by the Office of the State Auditor, I 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 my audit and, accordingly, I do not express such an opinion.

The results of my 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 \$47,240 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 my 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, I 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 my audit and, accordingly, I do not express such an opinion.

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

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



J.E. Fortenberry, III, PC
December 13, 2007

Certified Public Accountant

FINDINGS, CORRECTIVE ACTION PLAN AND AUDIT FOLLOW-UP

Amory Separate School District
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

Section 1: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

4. Type of auditor's report issued on compliance for major federal programs: Unqualified.
5. Internal control over major programs:
 - a. Material weakness(es) identified? No.
 - b. Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes.
6. Any audit findings reported as required by Section ____.510(a) of OMB Circular A-133? Yes.
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
8. The dollar threshold used to distinguish between Type A and Type B programs: \$300,000.
9. Auditee qualified as a low-risk auditee? Yes.

10. Prior fiscal year audit findings and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____ .315(b) of OMB Circular A-133? No.

Section 2: Findings Relating to the Financial Statements

The results of my tests disclosed the following finding related to the financial statements that are required to be reported by *Government Auditing Standards*.

Finding 07-1:

A lack of segregation of duties was noted in several areas. For instance, the business manager is responsible for both recording transactions (checks) with journal entries and reconciling the control accounts (bank statements). In another instance the business manager both recorded capital assets and managed the asset tagging and inventory. Sound internal control dictates that the person responsible for recording transactions should not also be responsible for reconciling the control accounts. The business manager has always been responsible for these jobs at this district as there were insufficient personnel available to handle these jobs. As a consequence school property could be lost or misappropriated and not be detected in a timely manner.

Recommendation:

Someone other than the business manager should be responsible for reconciling the control accounts and the fixed asset inventory and reconciliation.

School District's Response:

School district is considering the best resolution of this.

Section 3: Findings and Questioned Costs for Federal Awards

The results of my tests disclosed the following finding and questioned cost related to the federal awards.

Finding 07-2:

Significant Deficiency

Program: Child Nutrition Cluster
CFDA # 10.553 and 10.555
Grantor: United States Department of Agriculture
Passed through the Mississippi Department of Education

I selected ten (10) items from the list of the cafeteria fixed assets to test. These assets were purchased with funds from the Child Nutrition Cluster. I could not locate three (3) of the items. School personnel informed us these items had been replaced years ago. Of the remaining seven (7) items, five (5) pieces of equipment did not have school property tags attached. School personnel stated that the tags came off while cleaning the equipment. I also noted six (6) items of equipment in the cafeteria that were not on the fixed asset list.

All school property should be tagged and inventoried. When the school board approves items to be retired/discarded those items should be removed from the fixed asset list. No item of school

property should be discarded or removed from the asset list without board approval. Currently the business manager is responsible for the fixed assets and because of the priority of other responsibilities which the business manager has sometimes the fixed asset management duties become overlooked. This could cause the school property to be not reconciled, lost or misappropriated and not be detected in a timely manner.

Recommendation:

For reasons of separation of duties and work load allocations, someone, other than the business manager, should be given responsibility for the fixed asset management.

School District's Response:

School district will ensure equipment items are properly tagged and inventoried.

Amory Separate School District
PO Box 330
Amory, MS 38821
662-256-5991, Fax 662-256-6302
James Sappington - Superintendent
Kathy Cadden - Business Manager

AUDITEE'S CORRECTIVE ACTION PLAN

As required by Section __.315(b) of OMB Circular A-133, the Amory Separate School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Cost for the year ended June 30, 2007:

Finding

Corrective Action Plan Details

07-1

a. Name of Contact Person Responsible for Corrective Action

Name: James Sappington, Superintendent
Phone Number: 662-256-5991

b. Corrective Action Planned: The school district is considering the best resolution of this issue.

c. Anticipated Completion Date: June 30, 2009

07-2

a. Name of Contact Person Responsible for Corrective Action

Name: James Sappington, Superintendent
Phone Number: 662-256-5991

b. Corrective Action Planned: Equipment items will be properly tagged and inventoried.

c. Anticipated Completion Date: June 30, 2008

