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**Brookhaven School District
Financial Statements
For the Year Ended
June 30, 2007**

*PATRICK E. LOWERY AND ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS*

Brookhaven School District
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Brookhaven School District

FINANCIAL AUDIT REPORT

PATRICK E. LOWERY AND ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

Member of Mississippi Society
of Certified Public Accountants

215 SOUTH RAILROAD AVENUE
BROOKHAVEN, MISSISSIPPI 39601

PHONE (601) 833-1456
FAX (601) 833-9896
EMAIL: plowery3@bellsouth.net

Member of American Institute
of Certified Public Accountants

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

Superintendent and School Board
Brookhaven School District

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

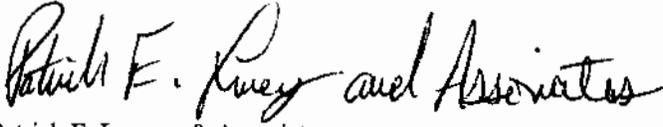
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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 Brookhaven 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*, we have also issued our report dated July 16, 2008, on our consideration of the Brookhaven School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 4 through 13 and the Budgetary Comparison Schedule and corresponding notes on pages 35 through 37 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Brookhaven 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Patrick E. Lowery & Associates
Certified Public Accountants
July 16, 2008

Brookhaven School District

MANAGEMENT'S DISCUSSION AND ANALYSIS

Brookhaven School District

P.O. Box 540
Brookhaven, Mississippi 39602-0540



Lea Barrett
Superintendent

Deputy Superintendent
James V. Tillman, Ed.S.
Director of Instructional Programs
Federal Programs Coordinator
Marsha F. Bond
Finance Director
Susan Quin, CPA

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

FINANCIAL HIGHLIGHTS

- Total net assets, including the effect of prior period adjustments, increased \$1,289,157, which represents an 8% increase from fiscal year 2006. This increase in net assets is primarily due to the following: 1) repayment of debt principal in the amount of \$621,000 was not reported as an expense in the Statement of Activities but as a reduction of long-term liabilities on the Statement of Net Assets, 2) an increase in the amount of revenue from state sources received under the Mississippi Adequate Education Program, and 3) sixteenth section sources generated during the fiscal year primarily from oil and gas royalties, sixteenth section leases and earnings on investments.
- General revenues accounted for \$21,092,134 in revenue, or 82% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$4,636,634, or 18% of total revenues.
- The District had \$24,446,083 in expenses; only \$4,636,634 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$21,092,134 were adequate to provide for these programs.
- Among major funds, the General Fund had \$20,134,368 in revenues and \$19,293,099 in expenditures. After net other financing uses of \$508,542, the net change in fund balance for the General Fund was an increase of \$332,727 from the previous fiscal year. This increase is primarily a result of the increased amount of revenue from state sources received under the Mississippi Adequate Education Program.
- Capital assets, net of accumulated depreciation, decreased by \$195,289.

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

- Long-term debt decreased by \$393,760.

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 are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

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

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

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

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

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 have 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 additional major special revenue fund.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and a schedule of instructional, administrative and other expenditures for governmental funds is also included in this report.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$16,836,175 as of June 30, 2007.

The district's net assets are comprised of 1) net assets invested in capital assets, net of related debt, 2) restricted net assets and 3) unrestricted net assets. \$10,543,606 of the District's net assets (64%) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment and furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending. \$2,611,938 of the District's net assets (16%) reflects its restricted net assets. A portion of the restricted net assets is expendable for school based activities, debt service, forestry improvements and unemployment benefits. The remaining portion of the restricted net assets is nonexpendable for 16th section investment purposes. \$3,680,631 of the District's net assets (20%) reflects its unrestricted net assets.

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

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

	<u>Net Assets</u>		Percentage
	<u>June 30, 2007</u>	<u>June 30, 2006</u>	<u>Change</u>
Current assets	\$ 5,862,900	\$ 6,409,910	(8.5) %
Other assets	1,407,019	687,698	104.6 %
Capital assets, net	<u>17,748,606</u>	<u>17,943,895</u>	(1.1) %
Total assets	<u>25,018,525</u>	<u>25,041,503</u>	(0.1) %
Current liabilities	1,441,721	1,688,747	(54.4) %
Long-term debt outstanding	<u>6,740,629</u>	<u>7,805,738</u>	(5.0) %
Total liabilities	<u>8,182,350</u>	<u>9,494,485</u>	(13.8) %
Net assets:			
Invested in capital assets, net of related debt	10,543,606	10,347,895	3.9 %
Restricted	2,611,938	2,052,734	27.2 %
Unrestricted	<u>3,680,631</u>	<u>3,146,389</u>	10.2 %
Total net assets	<u>\$ 16,836,175</u>	<u>15,547,018</u>	8.3 %

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

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

- Current assets decreased from the previous fiscal year due primarily to a decrease in amounts due from other governments. In the previous fiscal year, the District recorded receivables from the federal government related to the Displaced Student Grants and Restart School Grant resulting from Hurricane Katrina.
- Other assets increased from the previous fiscal year due primarily to an increase in restricted assets resulting from the increase in the cash balance of the 16th Section Principal Fund and the recording of a deferred charge related to debt issuance costs during the fiscal year.
- Current liabilities decreased from the previous fiscal year due primarily to a decrease in amounts due to other governments. In the previous fiscal year, funds to cover the accrued payroll liabilities recorded in the Payroll Clearing Fund (Fiduciary Fund) were not transferred until after fiscal year end and were reported as amounts due to other governments on the Statement of Net Assets. However, the funds were transferred to the Payroll Clearing Fund as of the end of the current fiscal year.
- Long-term debt outstanding decreased from the previous fiscal year due primarily to principal payments made during the fiscal year.
- Restricted net assets increased from the previous fiscal year due primarily to an increase in amounts restricted for sixteenth section purposes.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2007 were \$25,728,768. The total cost of all programs and services was \$24,446,083. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2007 and comparative data for the fiscal year ended June 30, 2006.

	<u>Change in Net Assets</u>		<u>Percentage Change</u>
	<u>June 30, 2007</u>	<u>June 30, 2006</u>	
Revenues:			
Program revenues:			
Charges for services	\$ 978,762	\$ 980,567	(0.2) %
Operating grants and contributions	3,657,872	4,642,839	(21.2) %
General revenues:			
Property taxes	7,314,098	7,125,280	2.6 %
Grants and contributions not restricted	12,867,372	11,636,216	10.6 %
Other	<u>910,664</u>	<u>671,920</u>	35.5 %
Total revenues	<u>25,728,768</u>	<u>25,056,822</u>	2.7 %
Expenses:			
Instruction	13,957,068	13,169,876	6.0 %
Support services	8,468,430	7,933,286	6.7 %
Non-instructional	1,584,980	1,602,905	(1.1) %
Sixteenth section	95,255	45,351	110.0 %

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

Interest and other expenses on long-term liabilities	<u>340,350</u>	<u>422,720</u>	(19.5) %
Total expenses	<u>24,446,083</u>	<u>23,174,138</u>	5.5 %
Increase (Decrease) in net assets	1,282,685	1,882,684	(31.9) %
Net Assets, July 1	15,547,018	13,692,878	13.5 %
Prior Period Adjustments	<u>6,472</u>	<u>(28,544)</u>	
Net Assets, Restated, July 1	<u>15,553,490</u>	<u>13,664,334</u>	13.8 %
Net Assets, June 30	<u>\$16,836,175</u>	<u>\$ 15,547,018</u>	8.3 %

The following are significant current year transactions that have had an impact on the Statement of Activities:

- Program revenues decreased from the previous fiscal year due primarily to a decrease in operating grants and contributions. In the previous fiscal year, the District reported federal revenue of approximately \$810,000 in the Displaced Student Grant Funds and Restart School Grant Fund resulting from Hurricane Katrina.
- General revenues increased from the previous fiscal year due primarily to an increase in unrestricted state grants and contributions, specifically an increase in Mississippi Adequate Education Program funds.
- Instruction and support services expenses increased from the previous fiscal year due primarily to an increase in salaries and related benefits, specifically an increase in insurance costs and retirement contributions.

Governmental activities. The following table presents, for the fiscal year ended June 30, 2007 and comparative data for the fiscal year ended June 30, 2006, the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section and interest and other expenses on long-term debt. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and District's taxpayers by each of these functions.

	<u>2007</u>		<u>2006</u>	
	<u>Total Expenses</u>	<u>Net (Expense) Revenue</u>	<u>Total Expenses</u>	<u>Net (Expense) Revenue</u>
Instruction	\$ 13,957,068	\$(11,636,063)	\$ 13,169,876	\$ (9,916,434)
Support services	8,468,430	(7,503,201)	7,933,286	(6,881,612)
Non-instructional	1,584,980	(234,930)	1,602,905	(287,632)
Sixteenth section	95,255	(94,905)	45,351	(42,334)
Interest and other expenses on long-term liabilities	<u>340,350</u>	<u>(340,350)</u>	<u>422,720</u>	<u>(422,720)</u>
Total expenses	<u>\$ 24,446,083</u>	<u>\$(19,809,449)</u>	<u>\$ 23,174,138</u>	<u>\$(17,550,732)</u>

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

- The net cost of governmental activities for fiscal year 2007 in the amount of \$19,809,449 was financed by general revenue, which is made up of primarily property taxes of \$7,314,098 and state revenue of \$12,812,613.
- Investment earnings accounted for \$186,295 of funding.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed fiscal year June 30, 2007, its governmental funds reported a combined fund balance of \$6,370,280. The net change in fund balance for the fiscal year was an increase of \$826,860 due primarily to an increase in the amount of revenue from state sources received under the Mississippi Adequate Education Program and sixteenth section sources generated during the fiscal year primarily from oil and gas royalties, sixteenth section leases and earnings on investments. \$4,667,369, or 73%, of the fund balance is reported by fund type in the unreserved, undesignated section of the Governmental Funds Balance Sheet. The portion of the fund balance reported in the General Fund is available for spending at the District's discretion. The portion of the fund balance reported in the Special Revenue Funds will be used for school based activities. The remaining fund balance of \$1,702,911, or 27%, is reserved or designated to indicate that it is not available for spending because it has already been committed. This portion of the fund balance is reserved for inventory, prepaid items, unemployment benefits, forestry improvements, capital project purposes, debt service purposes and permanent fund purposes.

The General Fund is the principal operating fund of the District. The net change in fund balance for the General Fund for the fiscal year was an increase of \$332,727 due primarily to the increased amount of revenue from state sources received under the Mississippi Adequate Education Program. The net change in fund balance for the 16th Section Interest Fund for the fiscal year was a decrease of \$22,635. The net change in fund balance for the 16th Section Principal Fund for the fiscal year was an increase of \$508,488 due to sixteenth section sources generated during the fiscal year primarily from oil and gas royalties, sixteenth section leases and earnings on investments. The net change in fund balance for the Other Governmental Funds for the fiscal year was an increase of \$8,280.

BROOKHAVEN 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. However, the budget revisions were routine in nature and were not considered significant when compared to overall revenues and expenditures.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2007, the District's total capital assets, before depreciation, were \$24,084,494, including land, buildings, building improvements, improvements other than buildings, mobile equipment and furniture and equipment. This amount represents a gross increase of \$376,846 from the previous year. During the fiscal year, the District completed building improvements and purchased three new school buses and various other items of mobile equipment and furniture and equipment. The District also disposed of three buses and various other items of equipment. Total depreciation expense for the year was \$687,066. Total accumulated depreciation as of June 30, 2007 was \$6,335,888, resulting in total net capital assets of \$17,748,606.

	<u>Capital Assets, Net of Depreciation</u>		Percentage <u>Change</u>
	<u>2007</u>	<u>2006</u>	
Land	\$ 167,049	\$ 167,049	0.0 %
Buildings	15,866,907	16,234,126	(2.3) %
Building improvements	317,781	197,693	60.7 %
Improvements other than buildings	341,227	356,063	(4.2) %
Mobile equipment	724,115	613,786	18.0 %
Furniture and equipment	331,527	375,178	(11.6) %
Total	<u>\$17,748,606</u>	<u>\$ 17,943,895</u>	(1.1) %

Debt Administration. At June 30, 2007, the District had \$7,411,978 in general obligation bonds and other long-term debt outstanding, of which \$671,349 is due within one year. During the fiscal year, the District issued General Obligation Refunding Bonds in the amount of \$5,345,000 to refund outstanding bonds in the amount of \$5,115,000. The District also made principal payments in the amount of \$621,000.

	<u>Outstanding Debt</u>		Percentage <u>Change</u>
	<u>2007</u>	<u>2006</u>	
General obligation bonds payable	\$ 7,015,000	\$ 7,226,000	(2.9) %
Three mill notes payable	190,000	370,000	(48.6) %
Compensated absences payable	206,978	209,738	(1.3) %
Total	<u>\$ 7,411,978</u>	<u>\$ 7,805,738</u>	(5.0) %

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

CURRENT ISSUES

The Brookhaven 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. In addition, the District's system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Brookhaven School District, P. O. Box 540, Brookhaven, MS 39602.

Brookhaven School District

FINANCIAL STATEMENTS

Brookhaven School District
Statement of Net Assets
June 30, 2007

Exhibit A

	<u>Primary Government</u>
	<u>Governmental</u>
	<u>Activities</u>
Assets	
Cash and cash equivalents	\$ 5,409,160
Due from other governments	385,580
Inventories and prepaid items	68,160
Deferred charge, debt issuance costs	210,833
Restricted assets	1,196,186
Capital assets, non-depreciable:	
Land	167,049
Capital assets, net of accumulated depreciation	
Buildings	15,866,907
Building Improvements	317,781
Improvements other than buildings	341,227
Mobile equipment	724,115
Furniture and equipment	331,527
Total Assets	\$ <u>25,018,525</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 624,809
Due to other governments	63,997
Interest payable on long-term liabilities	81,566
Long-term liabilities, due within one year	
Capital related liabilities	661,000
Non-capital related liabilities	10,349
Long-term liabilities, due beyond one year	
Capital related liabilities	6,544,000
Non-capital related liabilities	196,629
Total Liabilities	\$ <u>8,182,350</u>
Net Assets	
Investment in capital assets, net of related debt	\$ 10,543,606
Restricted net assets:	
Expendable:	
School - based activities	1,060,694
Debt service	205,085
Forestry improvements	91,893
Unemployment benefits	58,080
Non-expendable:	
Sixteenth section	1,196,186
Unrestricted	3,680,631
Total Net Assets	\$ <u>16,836,175</u>

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

Brookhaven School District
Statement of Activities
For the Year Ended June 30, 2007

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Primary Government
					Governmental Activities
Primary Government:					
Governmental Activities:					
Instruction	\$ 13,957,068	629,672	1,691,333	-	(11,636,063)
Support services	8,468,430	-	965,229	-	(7,503,201)
Non-instructional	1,584,980	348,740	1,001,310	-	(234,930)
Sixteenth section	95,255	350	-	-	(94,905)
Interest on long-term liabilities	340,350	-	-	-	(340,350)
Total governmental activities	\$ 24,446,083	978,762	3,657,872	-	(19,809,449)

General Revenues:

Taxes:

General purpose levies 6,509,601

Debt purpose levies 804,497

Unrestricted grants and contributions:

State 12,812,613

Federal 54,759

Unrestricted investment earnings 186,295

Sixteenth section sources 529,561

Other 194,808

Total General Revenues 21,092,134

Change in Net Assets 1,282,685

Net Assets - Beginning 15,547,018

Prior Period Adjustments 6,472

Net Assets - Restated 15,553,490

Net Assets - Ending \$ 16,836,175

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

Brookhaven School District
 Balance Sheet - Governmental Funds
 June 30, 2007

Exhibit C

	Major Funds				
	General	16th Section	16th Section	Other	Total
	Fund	Interest	Principal	Governmental	Governmental
	Fund	Fund	Fund	Funds	Funds
ASSETS					
Cash and cash equivalents	\$ 3,871,382	726,929	1,196,186	810,849	6,605,346
Due from other governments	256,661	-	-	116,011	372,672
Due from other funds	14,487	-	-	13,273	27,760
Inventories and prepaid items	21,172	-	-	46,988	68,160
Total Assets	\$ 4,163,702	726,929	1,196,186	987,121	7,073,938
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	\$ 467,695	57,294	-	99,820	624,809
Due to other funds	-	31,339	-	47,510	78,849
Total Liabilities	467,695	88,633	-	147,330	703,658
Fund Balances:					
Reserved for:					
Inventory	17,566	-	-	46,988	64,554
Prepaid Items	3,606	-	-	-	3,606
Unemployment benefits	-	-	-	58,080	58,080
Forestry improvements	-	-	-	91,893	91,893
Capital project purposes	-	-	-	1,941	1,941
Debt service purposes	-	-	-	286,651	286,651
Permanent fund purposes	-	-	1,196,186	-	1,196,186
Unreserved:					
Undesignated, reported in:					
General fund	3,674,835	-	-	-	3,674,835
Special Revenue funds	-	638,296	-	354,238	992,534
Total Fund Balances	3,696,007	638,296	1,196,186	839,791	6,370,280
Total Liabilities and Fund Balances	\$ 4,163,702	726,929	1,196,186	987,121	7,073,938

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

Brookhaven School District
 Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
 June 30, 2007

Exhibit C-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 6,370,280
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$6,335,888.	17,748,606
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds as follows.	
Long-term liabilities	(7,411,978)
Accrued interest on debt	(81,566)
3. Governmental funds report the effect of bond issuance costs when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.	<u>210,833</u>
Total Net Assets - Governmental Activities	\$ <u><u>16,836,175</u></u>

Brookhaven School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2007

Exhibit D

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	16th Section Interest Fund	16th Section Principal Fund		
Revenues:					
Local sources	\$ 7,011,614	-	-	1,542,703	8,554,317
State sources	13,017,590	-	-	553,798	13,571,388
Federal sources	105,164	-	-	2,848,692	2,953,856
Sixteenth section sources	-	64,624	516,484	2,748	583,856
Total Revenues	20,134,368	64,624	516,484	4,947,941	25,663,417
Expenditures:					
Instruction	11,347,881	-	-	2,149,246	13,497,127
Support services	7,484,775	-	-	1,113,157	8,597,932
Noninstructional services	285,006	-	-	1,287,824	1,572,830
Sixteenth section	-	95,255	-	-	95,255
Facilities acquisition and construction	175,437	-	-	-	175,437
Debt service:					
Principal	-	-	-	621,000	621,000
Interest	-	-	-	452,715	452,715
Bond issuance costs	-	-	-	120,663	120,663
Other	-	-	-	504	504
Total Expenditures	19,293,099	95,255	-	5,745,109	25,133,463
Excess (Deficiency) of Revenues					
Over Expenditures	841,269	(30,631)	516,484	(797,168)	529,954
Other Financing Sources (Uses):					
Proceeds of refunding bonds	-	-	-	5,345,000	5,345,000
Insurance loss recoveries	65,351	-	-	-	65,351
Sale of transportation equipment	1,555	-	-	-	1,555
Operating transfers in	-	7,996	-	591,815	599,811
Operating transfers out	(575,448)	-	(7,996)	(16,367)	(599,811)
Payment to refunded bond escrow agent	-	-	-	(5,115,000)	(5,115,000)
Total Other Financing Sources (Uses)	(508,542)	7,996	(7,996)	805,448	296,906
Net Change in Fund Balances	332,727	(22,635)	508,488	8,280	826,860
Fund Balances:					
July 1, 2006, as previously reported	3,354,248	660,931	687,698	810,249	5,513,126
Prior period adjustments & reclassifications	6,472	-	-	-	6,472
July 1 2006, as restated	3,360,720	660,931	687,698	810,249	5,519,598
Increase (Decrease) in reserve for inventory	2,560	-	-	21,262	23,822
June 30, 2007	\$ 3,696,007	638,296	1,196,186	839,791	6,370,280

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

Brookhaven School District
 Reconciliation of the Governmental Funds Statement of Revenues,
 Expenditures and Changes in Fund Balances to the Statement of Activities
 For the Year Ended June 30, 2007

Exhibit D-1

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ 826,860
Amounts reported for governmental activities in the statement of activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate these expenditures over the life of the assets. Capital asset purchases amounted to \$505,036 and the depreciation expense amounted to \$687,066.	(182,030)
2. Issuance cost for long-term liabilities is reported as expenditures in the governmental funds, but is deferred and the expense is amortized in the Statement of Activities.	(19,167)
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 activity.	621,000
4. In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in governmental funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by the following item:	
Losses on sales of capital assets	(13,259)
5. Expenses in the statement of activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds:	
Compensated Absences	2,760
6. Governmental funds recognize interest on long-term debt when it becomes due, however, the statement of activities recognizes interest as it accrues regardless of when it becomes due.	22,699
7. An increase (+)/decrease(-) in the reserve for inventory is reported as a direct increase/decrease to the fund balance in the governmental funds but is a decrease/increase in noninstructional service expenses in the Statement of Activities.	<u>23,822</u>
Change in Net Assets of Governmental Activities	\$ <u><u>1,282,685</u></u>

Brookhaven School District
Statement of Fiduciary Assets and Liabilities
June 30, 2007

Exhibit E

		<u>Agency Funds</u>
Assets		
Cash and cash equivalents	\$	784,555
Due from other funds		<u>63,997</u>
Total Assets	\$	<u><u>848,552</u></u>
Liabilities		
Accounts payable and accrued liabilities	\$	835,644
Due to other funds		<u>12,908</u>
Total Liabilities	\$	<u><u>848,552</u></u>

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

Brookhaven 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 "other stand-alone government." The school district is a related organization of, but not a component unit of, the City of Brookhaven since the governing authority of the city selects a majority of the school district's board but does not have financial accountability for the school district. The Brookhaven Leasing Authority ("the Authority") as explained in the following paragraph is considered to be a blended component unit as determined by Section 2100 of the *Codification of Governmental Accounting and Financial Reporting Standards* and is included in the district's reporting entity.

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

B. Basis of Presentation.

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

Government-wide Financial Statements:

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

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

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

Fund Financial Statements:

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

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 flows take place. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Program revenues on the Statement of Activities consist primarily of state appropriations and federal awards.

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

The school district reports the following major governmental funds:

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

16th Section Interest Fund -- This fund accounts for the transactions resulting from the generation of revenue from the 16th section land within that individual township that is legally required to be placed in a 16th section interest fund.

16th Section Principal Fund—This fund accounts for nonexpendable revenues generated from 16th section land that is required to be held in trust for the school district.

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

Capital Projects Funds - Capital Projects Funds are used to account for financial resources to be used for the

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

acquisition or construction of major capital facilities.

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

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

FIDUCIARY FUNDS

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

D. Account Classifications.

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

E. Encumbrances.

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

F. Cash and Cash Equivalents.

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

Cash and cash equivalents consists 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 commodities are received from the USDA and are valued at USDA cost. Other inventories are

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

valued at cost (calculated on the first-in, first-out basis).

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

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

I. Capital Assets.

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

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

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

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

(*) The threshold amount will correspond with the amounts for the asset classifications, as listed. See Note 4 for details.

J. Long-term liabilities.

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

K. Interfund Transactions and Balances.

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

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

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

considered available expendable resources.

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

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

L. Equity Classifications.

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

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

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

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

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

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

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

Reserved for 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.

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

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

M. Property Taxes.

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

N. Mississippi Adequate Education Program Revenues.

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

O. Compensated Absences.

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

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

(2) Cash and Cash Equivalents.

The district follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Restrictions on deposits 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.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds

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

and fiduciary funds was \$6,605,346 and \$784,555, respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and cash equivalents \$5,409,160 and Restricted Assets \$1,196,186. The Restricted assets represents the cash balance of the 16th section Principal funds (Permanent Funds) which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$8,453,704.

Custodial Credit Risk-Deposits. Custodial risk is defined as the risk that, in the event of a 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 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, \$0 of the district's bank balance of \$8,453,704 was exposed to custodial credit risk.

(3) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

	Due From	Due To
Governmental funds:		
General fund	\$ 14,487	
16 th section interest fund		31,339
Other governmental funds	13,273	47,510
Fiduciary Funds	63,997	12,908
Total Funds	\$ 91,757	91,757

The purpose of the interfund receivables and payables are to close-out federal program funds at year end. All interfund receivables and payables are expected to be repaid within one year.

B. Transfers In/Out.

	Transfer In	Transfers Out
Governmental funds:		
General fund	\$	575,448
16 th section interest fund	7,996	
16 th section principal fund		7,996
Other Governmental Funds	591,815	16,367
Total Funds	\$ 599,811	599,811

The purposes of interfund transfers are to transfer federal program indirect costs to the General fund and to close out federal programs at year end. These transfers are consistent with the activities of the fund making the transfer.

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

(4) Capital Assets.

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

	Balance 7-1-2006	Additions	Retirements	Completed Construction	Adjustments	Balance 6-30-2007
<u>Non-depreciable capital assets:</u>						
Land	\$ 167,049					167,049
Construction in progress	0					-
Total non-depreciable capital assets	<u>167,049</u>					<u>167,049</u>
<u>Depreciable capital assets:</u>						
Buildings	19,621,928					19,621,928
Building improvements	314,935	138,214				453,149
Improvements other than bldg	370,899					370,899
Mobile equipment	1,893,437	234,538	102,042			2,025,933
Furniture and equipment	1,339,400	132,284	26,148			1,445,536
Total depreciable capital Assets	<u>23,540,599</u>	<u>505,036</u>	<u>128,190</u>			<u>23,917,445</u>
<u>Less accumulated depreciation for:</u>						
Buildings	(3,387,802)	(367,219)				(3,755,021)
Building improvements	(117,242)	(18,126)				(135,368)
Improvements other than bldg	(14,836)	(14,836)				(29,672)
Mobile equipment	(1,279,651)	(114,005)	91,838			(1,301,818)
Furniture and equipment	(964,222)	(172,880)	23,093			(1,114,009)
Total accumulated depreciation	<u>(5,763,753)</u>	<u>(687,066)</u>	<u>114,931</u>			<u>(6,335,888)</u>
Total depreciable capital assets, net	<u>17,776,846</u>	<u>(182,030)</u>	<u>13,259</u>			<u>17,581,557</u>
Governmental activities capital assets, net	<u>\$ 17,943,895</u>	<u>(182,030)</u>	<u>13,259</u>			<u>17,748,606</u>

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 471,873
Support services	179,083
Non-instructional	<u>36,110</u>
Total depreciation expense	<u>\$ 687,066</u>

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

(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 \$	7,226,000	5,345,000	441,000	(5,115,000)	7,015,000	471,000
B. Three mill notes payable	370,000		180,000		190,000	190,000
C. Compensated absences payable	209,738		2,760		206,978	10,349
Total	\$ 7,805,738	5,345,000	623,760	(5,115,000)	7,411,978	671,349

A. General obligation bonds payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General obligation bonds, Series 2000	Varies	04-01-00	04-01-20	\$ 7,500,000	680,000
General obligation ref. Bonds, Series 2006	3.84%	01-10-06	07-15-16	1,116,000	1,035,000
General obligation ref. Bonds, Series 2006	3.89%	10-31-06	04-01-19	5,345,000	5,300,000
Total				\$ 13,961,000	7,015,000

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

Year Ending June 30	Year Ending		Total
	Principal	Interest	
2009	471,000	559,925	1,030,925
2010	501,000	533,702	1,034,702
2011	526,000	238,504	764,504
2012	555,000	217,541	772,541
2013	575,000	195,501	770,501
2014 - 2018	3,257,000	613,419	3,870,419
2019	1,130,000	66,600	1,196,600
Total	\$ 7,015,000	2,425,192	9,440,192

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

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 10.36% of property assessments as of October 1, 2003. This debt will be retired from the Bond Debt Service Fund.

Current Refunding.

On October 31, 2006, the district issued \$5,345,000 in General Obligation Refunding Bonds with a 3.89% interest rate to advance refund \$5,115,000 of General Obligation Bonds with a variable interest rate. The net proceeds of \$5,314,643.75 after payments of \$120,663.15 for issuance costs were deposited in an irrevocable trust with an escrow agent to provide for all future debt payment requirements on the General Obligation Refunding Bonds.

As a result, the General 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 General Obligation Bonds to reduce its total debt service payments over the remaining 13 years of the debt by approximately \$463,402 and to obtain an economic gain of \$293,071.

B. Three mill notes payable.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
	4.69%	06-01-98	06-01-08	\$ 1,550,000	190,000
Total				<u>\$ 1,550,000</u>	<u>190,000</u>

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

Year Ending June 30	Principal	Interest	Total
2008	190,000	8,911	198,911
Total	<u>\$ 190,000</u>	<u>8,911</u>	<u>198,911</u>

This debt will be retired from the Capital Improvement Loan Fund – Debt Service Fund.

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

C. Compensated absences payable.

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

(6) Defined Benefit Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The 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 \$1,594,594, \$1,373,458, and \$1,203,137, respectively, which equaled the required contributions for each year.

(7) Sixteenth Section Lands.

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

Year Ending June 30	Amount
2008	\$ 16,785
2009	16,325
2010	6,918
2011	687
2012	687
2013 - 2017	1,663
2018 - 2022	483
2023 - 2027	483
2028 - 2032	483
2033 - 2037	483

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

2038 – 2042		483
Thereafter		1,267
Total	\$	46,747

(8) Prior Period Adjustments/Exhibits.

A summary of significant fund equity adjustments is as follows:

Exhibit B - Statement of Activities

<u>Explanation(s)</u>	<u>Amount</u>
1. An adjustment to correct a prior year error in recording an asset or liability	6,472
Total	\$ 6,472

Exhibit D - Statement of Revenue, Expenditures and changes in Fund Balance

<u>Explanation(s)</u>	<u>Amount</u>
1. An adjustment to correct a prior year error in recording an asset or liability	
a) General Fund	6,472
Total	\$ 6,472

(9) 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.

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 school district's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by 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.

REQUIRED SUPPLEMENTARY INFORMATION

Brookhaven School District
 Budgetary Comparison Schedule
 General 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:					
Local sources	\$ 7,208,608	\$ 7,190,000	\$ 7,011,614	\$ (18,608)	\$ (178,386)
State sources	12,879,949	13,049,000	13,017,590	169,051	(31,410)
Federal sources	75,291	109,000	105,164	33,709	(3,836)
Sixteenth section sources	0	67,000	0	67,000	(67,000)
Total Revenues	<u>20,163,848</u>	<u>20,415,000</u>	<u>20,134,368</u>	<u>251,152</u>	<u>(280,632)</u>
Expenditures:					
Instruction	11,178,845	11,360,750	11,347,881	(181,905)	12,869
Support services	7,586,860	7,485,400	7,484,775	101,460	625
Noninstructional services	267,380	282,750	285,006	(15,370)	-2,256
Facilities acquisition and construction	250,000	175,500	175,437	74,500	63
Total Expenditures	<u>19,283,085</u>	<u>19,304,400</u>	<u>19,293,099</u>	<u>(21,315)</u>	<u>11,301</u>
Excess (Deficiency) of Revenues Over Expenditures					
	<u>880,763</u>	<u>1,110,600</u>	<u>841,269</u>	<u>229,837</u>	<u>(269,331)</u>
Other Financing Sources (Uses):					
Sale of transportation equipment	-	1,555	1,555	1,555	-
Insurance loss recoveries	-	65,351	65,351	65,351	-
Operating transfers in	1,547,720	1,496,244	1,493,479	(51,476)	(2,765)
Operating transfers out	<u>(2,417,589)</u>	<u>(2,043,250)</u>	<u>(2,068,927)</u>	<u>374,339</u>	<u>(25,677)</u>
Total Other Financing Sources (Uses)	<u>(869,869)</u>	<u>(480,100)</u>	<u>(508,542)</u>	<u>389,769</u>	<u>(28,442)</u>
Net Change in Fund Balances					
	<u>10,894</u>	<u>630,500</u>	<u>332,727</u>	<u>619,606</u>	<u>(297,773)</u>
Fund Balances:					
July 1, 2006, as previously reported			3,354,248		
Prior period adjustments & reclassifications			<u>6,472</u>		
July 1, 2006, as restated			3,360,720		
Increase (decrease) in reserve for inventory			<u>2,560</u>		
June 30, 2007			<u>\$ 3,696,007</u>		

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

Brookhaven School District
 Budgetary Comparison Schedule
 16th Section Interest 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:					
Sixteenth section sources	196,000	65,000	64,624	(131,000)	(376)
Total Revenues	196,000	65,000	64,624	(131,000)	(376)
Expenditures:					
Sixteenth section	25,900	95,500	95,255	(69,600)	(245)
Total Expenditures	25,900	95,500	95,255	(69,600)	(245)
Excess (Deficiency) of Revenues Over Expenditures					
	170,100	(30,500)	(30,631)	(200,600)	(131)
Other Financing Sources (Uses):					
Operating transfers in	-	8,000	7,996	8,000	(4)
Total Other Financing Sources (Uses)	-	8,000	7,996	8,000	(4)
Net Change in Fund Balances					
	170,100	(22,500)	(22,635)	(192,600)	(135)
Fund Balances:					
July 1, 2006			660,931		
June 30, 2007			\$ 638,296		

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

Brookhaven 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 16th section interest fund consistent with accounting principles generally accepted in the United States of America.

Brookhaven School District

SUPPLEMENTAL INFORMATION

Brookhaven 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>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	\$ 77,732
Child nutrition cluster:		
School breakfast program	10.553	208,507
National school lunch program	10.555	771,054
Summer food service program for children	10.559	15,518
Total child nutrition cluster		995,079
Total U.S. Department of Agriculture		1,072,811
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	778,553
Vocational education - basic grants to states	84.048	41,506
Safe and drug-free schools and communities - state grants	84.186	16,173
State grants for innovative programs	84.298	9,208
Education technology state grants	84.318	34,203
Rural education	84.358	56,184
Hurricane Education Recovery Act	84.938	3,365
Improving teacher quality - state grants	84.367	253,552
Student progress monitoring	84.369	16,684
Total		1,209,428
Special education cluster:		
Special education - grants to states	84.027	550,792
Special education - preschool grants	84.173	22,645
Total		573,437
Total passed-through Mississippi Department of Education		1,782,865
Total U.S. Department of Education		1,782,865
<u>Other Federal Assistance</u>		
Direct program:		
Reserve Officers' Training Corps	12.XXX	47,422
Total Other Federal Assistance		47,422
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company		
The schools and libraries program of the universal service fund.	32.XXX	9,287
Total Federal Communications Commission		9,287
Total for All Federal Awards		\$ 2,912,385

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.

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

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other Student Instructional Expenditures</u>	<u>General Administration</u>	<u>School Administration</u>	<u>Other</u>
Salaries and fringe benefits	\$ 18,643,433	13,654,249	883,751	1,451,728	2,653,705
Other	6,490,030	1,399,428	252,273	119,881	4,718,448
Total	\$ <u>25,133,463</u>	<u>15,053,677</u>	<u>1,136,024</u>	<u>1,571,609</u>	<u>7,372,153</u>
Total number of students*	<u>2,968</u>				
Cost per student	\$ <u>8,468</u>	<u>5,072</u>	<u>383</u>	<u>530</u>	<u>2,484</u>

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

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

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

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

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

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

Note: include 100 and 200 range object codes on the "Salaries and fringe benefits" line; all other expenditures on the "Other" line

*Month 9 ADA, 2006-07 School Year

Brookhaven School District

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

PATRICK E. LOWERY AND ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

Member of Mississippi Society
of Certified Public Accountants

215 SOUTH RAILROAD AVENUE
BROOKHAVEN, MISSISSIPPI 39601

PHONE (601) 833-1456
FAX (601) 833-9896
EMAIL: plowery3@bellsouth.net

Member of American Institute
of Certified Public Accountants

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

Superintendent and School Board
Brookhaven School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Brookhaven School District as of and for the year ended June 30, 2007, which collectively comprise the Brookhaven School District's basic financial statements and have issued our report thereon dated July 16, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the school district's internal control over financial reporting 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 school district's internal control over financial reporting.

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 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.

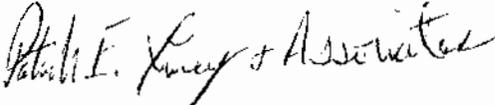
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the school district's internal control.

Our consideration of 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 or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grants, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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



Patrick E. Lowery & Associates
Certified Public Accountants
July 16, 2008

PATRICK E. LOWERY AND ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

Member of Mississippi Society
of Certified Public Accountants

215 SOUTH RAILROAD AVENUE
BROOKHAVEN, MISSISSIPPI 39601

PHONE (601) 833-1456
FAX (601) 833-9896
EMAIL: plowery3@bellsouth.net

Member of American Institute
of Certified Public Accountants

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

Superintendent and School Board
Brookhaven School District

Compliance

We have audited the compliance of the Brookhaven 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 auditor's results section of the Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the school district's management. Our responsibility is to express an opinion on the school district's compliance based on our audit.

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

In our opinion, Brookhaven 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 Brookhaven 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. Accordingly, we do not express an opinion on the effectiveness of the school district's

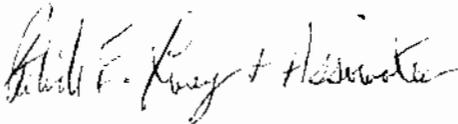
internal control over compliance.

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 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 school district's internal control.

Our consideration of 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 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.



Patrick E. Lowery & Associates
Certified Public Accountants
July 16, 2008

Brookhaven School District

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

PATRICK E. LOWERY AND ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

Member of Mississippi Society
of Certified Public Accountants

215 SOUTH RAILROAD AVENUE
BROOKHAVEN, MISSISSIPPI 39601

PHONE (601) 833-1456
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Superintendent and School Board
Brookhaven School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Brookhaven School District as of and for the year ended June 30, 2007, which collectively comprise Brookhaven School District's basic financial statements and have issued our report thereon dated July 16, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$58,867 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 did not disclose any instances of noncompliance with other state laws and regulations.

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

Patrick E. Lowery and Associates

Patrick E. Lowery & Associates
Certified Public Accountants
July 16, 2008

Brookhaven School District

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Brookhaven 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 financial statements: | Unqualified |
| 2. | Material noncompliance relating to the financial statements? | No |
| 3. | Internal control over financial reporting: | |
| a. | Material weakness(es) identified? | No |
| b. | Reportable condition(s) identified that are not considered to be material weaknesses? | No |

Federal Awards:

- | | | |
|-----|--|-------------|
| 4. | Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 5. | Internal control over major programs: | |
| a. | Material weakness(es) identified? | No |
| b. | Reportable condition(s) identified that are not considered to be material weaknesses? | No |
| 6. | Any audit finding(s) reported as required by Section ____.510(a) of Circular A-133? | No |
| 7. | Federal programs identified as major programs: | |
| a. | 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 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 |

Brookhaven School District

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

Section 2: Financial Statement Findings

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

Section 3: Federal Award Findings and Questioned Costs

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