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DESOTO COUNTY SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

DESOTO COUNTY SCHOOL DISTRICT
TABLE OF CONTENTS

FINANCIAL AUDIT REPORT 1
Independent Auditor's Report on the Basic Financial Statements and Supplemental Information 3
MANAGEMENT'S DISCUSSION AND ANALYSIS 5

FINANCIAL STATEMENTS 15
Statement of Net Assets 16
Statement of Activities 17
Balance Sheet – Governmental Funds 18
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets 19
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds 20
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities 21
Statement of Fiduciary Assets and Liabilities 22
Notes to the Financial Statements 23

REQUIRED SUPPLEMENTAL INFORMATION 39
Budgetary Comparison Schedule for the General Fund 40
Notes to the Required Supplemental Information 41

SUPPLEMENTAL INFORMATION 42
Schedule of Expenditures of Federal Awards 43
Schedule of Instructional, Administrative and Other Expenditures – Governmental Funds 44

REPORTS ON COMPLIANCE AND INTERNAL CONTROL 45
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards 47
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 49
Independent Auditor's Report on Compliance with State Laws and Regulations 51

SCHEDULE OF FINDINGS AND QUESTIONED COSTS 53

DESOTO COUNTY SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

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DANNY L. WILLIAMS
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INDEPENDENT AUDITOR'S REPORT ON THE BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

Superintendent and School Board
DeSoto County School District

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the DeSoto County School District as of and for the year ended June 30, 2007, which collectively comprise the DeSoto County School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the DeSoto County 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 DeSoto County 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 January 14, 2008, on our consideration of the DeSoto County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 read in conjunction with this report considering the results of our audit.

MEMBER AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS, MISSISSIPPI SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS
LICENSED IN MISSISSIPPI AND TENNESSEE

The Management's Discussion and Analysis on pages 5 through 13 and the Budgetary Comparison Schedule and corresponding notes on pages 40 through 41 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 DeSoto County 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 the 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.

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Certified Public Accountants
January 14, 2008

DESOTO COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

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DESOTO COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For The Year Ended June 30, 2007

The discussion and analysis of DeSoto County School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2007. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

This discussion and analysis is Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999. Certain comparative information between the current year and the prior year is required to be presented.

FINANCIAL HIGHLIGHTS

- Total net assets increased $13,678,252, which represents a 9% increase from fiscal year 2006.

- General revenues account for $172,384,402 in revenue, or 86% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for $27,496,803 or 14% of total revenues.

- The District had $186,195,079 in expenses; only $27,496,803 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of $172,384,402 were more than adequate to provide for the balance of these expenses.

- Among major funds, the General Fund had $161,620,004 in revenues and $147,667,860 in expenditures. The General Fund's fund balance increased $10,096,948 from the prior year. The increase in fund balance was mainly the result of utilizing limited tax note proceeds to pay for capital outlays and building improvements that would otherwise have been paid for with district funds. Also, the district postponed other planned construction projects and renovations due to the fact that not enough funds were available to complete the projects.

- Capital assets, net of accumulated depreciation, increased by $17,250,650. The increase in capital assets was mainly due to the completion of Southaven High School and Lake Cormorant Elementary. Approximately $121,975,000 in new construction was added which includes the following: the new Horn Lake High School, Centerhill Middle High School, Lewisburg Middle/High School, Lake Cormorant Middle School, and various road improvements and building additions. Approximately $12,276,000 in construction in progress was added mainly for Lake Cormorant Elementary, road improvements at Lake Cormorant Elementary, and various small scale building renovations.

- Long-term debt increased by $14,375,000 (exclusive of compensated absences). This was the net result of the issuance of $24,530,000 in three mill notes and principal payments made on existing debt.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

The government-wide financial statements can be found on pages 16 – 17 of this report.

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

> **Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's current financing requirements. Governmental Funds are reported using modified accrual accounting. This method of accounting measures cash and other assets that can be easily converted to cash. The Governmental Funds Statements provide a detailed short-term view of the school district's operations.
>
> Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 19 and 21, respectively.

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

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

The basic governmental fund financial statements can be found on pages 18 – 21 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The school district's fiduciary activities are presented in separate Statements of Fiduciary Net Assets on page 22.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23 – 39 of this report.

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund. This required supplementary information can be found on page 40 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on page 43 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by $161,117,711 as of June 30, 2007.

By far the largest portion of the District's net assets (62%) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment, leased property under capital leases and construction in progress, less any related debt outstanding that was used to acquire those assets. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending. The second largest portion of the District's net assets (28%) reflects its unrestricted fund balance which is primarily cash and investments which will be used in future fiscal years to fund transportation equipment and the building of new schools.

The District's financial position is a product of several financial transactions including the net result of activities, the 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 2006. Current assets increased by $6,719,199 primarily due to the postponement of construction projects resulting in an increase in cash and investments.

	Net Assets		Percentage
	2007	2006	Change
Assets:			
Current assets	$ 75,398,591	$ 68,679,392	9.8%
Non-current assets	873,264	894,818	-2.4%
Capital assets, net	276,042,001	258,791,351	6.7%
Total assets	352,313,856	328,365,561	**7.3%**
Liabilities:			
Current liabilities	24,542,556	27,284,725	-10.1%
Long-term liabilities	166,653,589	153,641,377	8.5%
Total liabilities	191,196,145	180,926,102	**5.7%**
Net assets:			
Invested in capital assets, net of related debt	99,417,001	96,541,351	3.0%
Restricted	16,159,120	15,328,039	5.4%
Unrestricted	45,541,590	35,570,069	28.0%
Total net assets	$ 161,117,711	$ 147,439,459	**9.3%**

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

- The issuance of $24,530,000 in limited tax notes. Also, the principal retirement of $10,155,000 in long-term debt.

- Approximately $121,975,000 in new construction was added which includes the following: the new Horn Lake High School, Centerhill Middle High School, Lewisburg Middle High School, Lake Cormorant Middle School, and various road improvements and building additions. Approximately $12,276,000 in construction in progress was added mainly for Lake Cormorant Elementary, road improvements, and various small building renovations.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2007 were $199,881,205. The total cost of all programs and services was $ 186,195,079. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2007 and 2006.

Revenues:			
Program revenues			
Charges for services	$ 10,572,974	$ 9,096,747	16.2%
Operating grants and contributions	16,077,850	15,512,469	3.6%
Capital grants	845,979	782,926	8.1%
General revenues			
Property taxes	56,985,745	53,686,537	6.1%
Grants and contributions not restricted	111,008,560	100,048,987	11.0%
Other	4,390,097	3,795,889	15.7%
Total revenues	$ 199,881,205	$ 182,923,555	**9.3%**
Expenses:			
Instruction	$ 100,260,245	$ 92,730,085	8.1%
Support services	68,479,538	60,828,519	12.6%
Non-instructional	10,292,257	8,667,968	18.7%
Interest on long-term liabilities	7,163,039	6,819,809	5.0%
Total expenses	186,195,079	169,046,381	10.1%
Increase in net assets	$ 13,686,126	$ 13,877,174	**-1.4%**

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

	2007 Total Expenses	2007 Net (Expense) Revenue	2006 Total Expenses	2006 Net (Expense) Revenue
Instruction	$ 100,260,245	$ (83,083,719)	$ 92,730,085	$ (75,942,406)
Support services	68,479,538	(68,375,554)	60,828,519	(60,778,519)
Non-instructional	10,292,257	(75,964)	8,667,968	(113,505)
Interest on long-term liabilities	7,163,039	(7,163,039)	6,819,809	(6,819,809)
Total expenses	$ 186,195,079	$ (158,698,276)	$ 169,046,381	$ (143,654,239)

- In 2007, net cost of governmental activities ($158,698,276), was financed by general revenue, which is made up primarily of property taxes of $56,985,745 and state revenue of $109,192,818. The Mississippi Adequate Education Program provides the largest portion of unrestricted state funds in the amount of $101,870,362, with other state grants categorized as Homestead Exemption, Ad Valorem Tax Reduction Grant, and Chickasaw Funds. In 2006, property taxes were $53,686,537 and state revenue $98,294,516. Investment earnings accounted for $3,686,004 of funding in 2007 and $3,775,420 in 2006.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of $64,579,752, an increase of $11,784,142 primarily due to the postponement of capital projects. $57,998,921 or 90% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of $6,580,831 is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was $10,096,948, a result of capital projects being postponed to future years. The net change in fund balance of all other Non-general Funds showed an increase of $1,687,194.

BUDGETARY HIGHLIGHTS

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

- Budget amendments were made to increase expenditures for additional personnel and support services necessary for the additional 1550 children enrolled in FY07. Amendments were also made for new funds and carry-over funds in Federal Programs as well as grants awarded during the year.

- Budgeted amounts for facilities acquisition and construction expenditures were increased with the issuance of additional limited tax notes.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2007, the District's total capital assets were $276,042,001, including school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of $17,250,650 from the previous year. The increase in capital assets is mainly due to the construction of Lake Cormorant Elementary, road improvement projects, completion of construction projects that begin in prior year as well as various other building renovation projects. Approximately $21,957,000 in construction in progress was added due to the construction of Lake Cormorant Elementary and road improvements. Accumulated depreciation as of June 30, 2007 was $44,634,913 and total depreciation expense for the year was $8,239,249.

	Capital Assets, Net of Depreciation		Percentage
	2007	2006	Change
Land	$ 10,410,865	$ 10,410,865	0.0%
Construction in Progress	12,276,609	112,294,628	-89.1%
Buildings	221,570,828	114,788,006	93.0%
Building improvements	5,360,177	4,353,068	23.1%
Improvements other than buildings	12,552,677	5,410,844	132.0%
Mobile equipment	8,838,598	8,865,003	-0.3%
Furniture and equipment	5,032,247	2,668,937	88.5%
Total	$ 276,042,001	$ 258,791,351	**6.7%**

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

Debt Administration. At June 30, 2007, the District had $177,735,840 in general obligation bonds and other long-term debt outstanding, of which $12,275,000 is due within one year. The Limited Tax Notes were financed with a twenty (20) year debt schedule. The District still has 1.00 mils available to borrow under the Limited Tax Note statute. The 2002 General Obligation bonds were refinanced with a ten (10) year debt schedule. The 2004 General Obligation bond Series A was financed with a twelve (12) year debt schedule. Series B was financed with a ten (10) year debt schedule. The 2005 General Obligation bonds were financed with a fourteen (14) year debt schedule. Ad valorem requests to DeSoto County are adequate to cover the annual debt service for FY2007. The 2004 Certificates of Participation were financed with a fifteen (15) year debt schedule. The debt service payments are financed through a combination of District Maintenance funds and the EEF Buildings and Buses fund which has been pledged to retire this debt.

The District maintains an AAA bond rating. Additional information of the District's long-term debt can be found in Note 5 of this report.

CURRENT ISSUES

The DeSoto County School District is financially stable and has accomplished this by committing itself to financial excellence for many years. DeSoto County has been experiencing phenomenal growth over the past several years, and the trend is for even greater growth in the future. The District has gained at least 1200 children per year for the past six years, and projects a gain of 1700 children for FY2008. Even with the growth, the District has been able to maintain a healthy fund balance with minimal increases in millage.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the DeSoto County School District, 5 E. South St, Hernando, MS 38632 .

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DESOTO COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS

Statement of Net Assets
June 30, 2007

		Government Activities
ASSETS		
Cash and cash equivalents	$	66,112,202
Investments		5,523,470
Due from other governments		3,642,377
Inventories and prepaid items		120,542
Bond issue cost		873,264
Capital assets, non-depreciable:		
Land		10,410,865
Construction in progress		12,276,609
Capital assets, net of accumulated depreciation:		
Buildings		221,570,828
Building improvements		5,360,177
Improvements other than buildings		12,552,677
Mobile equipment		8,838,598
Furniture and equipment		5,032,247
Total assets	$	352,313,856
LIABILITIES		
Accounts payable and accrued liabilities	$	5,664,617
Due to other governments		5,080,928
Deferred revenue		73,294
Interest payable on long-term liabilities		1,448,717
Long-term liabilities, due within one year		
Capital related liabilites		12,275,000
Long-term liabilities, due beyond one year		
Capital related liabilites		164,350,000
Bond premium		2,240,195
Bond discount		(344,142)
Loss on advanced refunding bond		(703,304)
Non-capital liabilities		1,110,840
Total liabilities	$	191,196,145
NET ASSETS		
Invested in capital assets, net of related debt	$	99,417,001
Restricted net assets		
Expendable:		
School based activities		3,316,201
Debt service		4,236,087
Capital improvements		8,150,832
Unemployment benefits		456,000
Unrestricted		45,541,590
Total Net Assets	$	161,117,711

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

Statement of Activities
For the year ended June 30, 2007

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities
Governmental Activities:					
Instruction	$100,260,245	6,474,725	10,701,801	-	(83,083,719)
Support services	68,479,538	-	103,984	-	(68,375,554)
Noninstructional services	10,292,257	4,098,249	5,272,065	845,979	(75,964)
Interest and other expenses on long-term liabilities	7,163,039	-	-	-	(7,163,039)
Total Governmental Activities	$186,195,079	10,572,974	16,077,850	845,979	(158,698,276)

General Revenues:	
Taxes:	
General purpose levies	43,526,271
Debt purpose levies	13,459,474
Unrestricted grants and contributions:	
State	109,192,818
Federal	897,798
Other	917,944
Unrestricted investment earnings	3,686,004
Other	704,093
Total general revenues	172,384,402
Changes in Net Assets	13,686,126
Beginning net assets	147,439,459
Prior period adjustments (Note 9)	(7,874)
Net Assets - Beginning - Restated	147,431,585
Net Assets - Ending	$ 161,117,711

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

Balance Sheet – Governmental Funds
June 30, 2007

	General Fund	Limited Tax Note Capital Program Fund	2005 G O Bond Series C Construction Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 27,031,395	$ 9,751,949	$ 11,874,220	$ 17,454,638	$ 66,112,202
Investments	-	-	68,977	5,454,493	5,523,470
Due from other governments	2,133,747	-	-	1,508,630	3,642,377
Due from other funds	32,815,503	3,976,189	12,361,581	5,698,249	54,851,522
Inventories and prepaid items	-	-	-	120,542	120,542
Total Assets	$ 61,980,645	$ 13,728,138	$ 24,304,778	$ 30,236,552	$ 130,250,113
LIABILITIES & FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	$ 4,804,990	$ 138,823	$ -	$ 720,804	$ 5,664,617
Due to other funds	10,523,225	11,969,887	24,548,357	12,890,981	59,932,450
Deferred revenue	-	-	-	73,294	73,294
Total Liabilities	15,328,215	12,108,710	24,548,357	13,685,079	65,670,361
Fund Balances:					
Reserved for:					
Inventory	-	-	-	120,542	120,542
Debt service funds	-	-	-	6,004,289	6,004,289
Unemployment benefits				456,000	456,000
Unreserved					
Designated for, reported in:					
Capital project funds		1,619,428	(243,579)	6,774,983	8,150,832
Undesignated, reported in:					
General fund	46,652,430	-	-	-	46,652,430
Special revenue funds	-	-	-	3,195,659	3,195,659
Total Fund Balances	46,652,430	1,619,428	(243,579)	16,551,473	64,579,752
Total Liabilities and Fund Balances	$ 61,980,645	$ 13,728,138	$ 24,304,778	$ 30,236,552	$ 130,250,113

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

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

		Amount
	Total Fund Balances - Government Funds	$ 64,579,752
	Amounts reported for governmental activities in the statement of net assets are different because:	
1.	Capital assets are used in governmental activities and are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of $44,634,913.	276,042,001
2.	Other long-term assets (bond issue costs) are not available to pay for current expenditures and therefore are deferred in the funds.	873,264
3.	Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(177,735,840)
4	Governmental funds recognize interest on long-term debt when it becomes due, however the Statement of Net Assets recognizes interest as it accrues.	(1,448,717)
5	Bond premiums, bond discounts and loss on redemption of bonds are reported as other financing sources and uses in the governmental funds but as a liability and contra-liability on the statement of net assets.	(1,192,749)
	Total Net Assets	$ 161,117,711

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

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
For the year ended June 30, 2007

	General Fund	Limited Tax Note Capital Program Fund	2005 G O Bond Series C Construction Fund	Other Governmental Funds	Total Governmental Funds
REVENUE					
Local sources	$ 51,832,036	$ 508,444	$ 1,388,202	$ 19,099,096	$ 72,827,778
State sources	108,889,670		-	3,106,689	111,996,359
Federal sources	898,298		-	14,093,788	14,992,086
Total revenues	161,620,004	508,444	1,388,202	36,299,573	199,816,223
EXPENDITURES					
Instruction	90,557,091	988,003	-	8,757,423	100,302,517
Support sevices	54,115,583	6,444,152	39,321	5,934,412	66,533,468
Noninstructional services	1,249,233	1,035,526	0	8,451,013	10,735,772
Facilities acquisition and construction	1,745,953	15,569,299	1,164,997	186,643	18,666,892
Debt Service:					
Principal	-	-	-	10,155,000	10,155,000
Interest	-	-	-	6,912,291	6,912,291
Other	-	232,704	-	16,180	248,884
Total expenditures	147,667,860	24,269,684	1,204,318	40,412,962	213,554,824
Excess (deficiency) of revenues over expeditures	13,952,144	(23,761,240)	183,884	(4,113,389)	(13,738,601)
Proceeds of general obligation bonds	-	24,530,000	-	-	24,530,000
Premium on bonds issued	-	854,249	-	-	854,249
Insurance loss recoveries	62,983	-	-	1,999	64,982
Sale of transportation equipment	50,732	-	-	-	50,732
Operating transfers in	71,545	-	-	5,488,428	5,559,973
Other financing sources	336,173	-	-	1,402	337,575
Operating transfers out	(4,117,334)	-	-	(1,442,639)	(5,559,973)
Other financing use	(259,295)	-	-	(76,878)	(336,173)
Total other financing sources and uses	(3,855,196)	25,384,249	-	3,972,312	25,501,365
Net change in fund balances	10,096,948	1,623,009	183,884	(141,077)	11,762,764
Fund balances:					
July 1, 2006, as previously reported	36,555,482	18,116	(427,463)	16,649,475	52,795,610
Prior period adj. & reclassifications (Note 9)		(21,697)		13,823	(7,874)
July 1, 2006, as restated	36,555,482	(3,581)	(427,463)	16,663,298	52,787,736
Increase (decrease) in reserve for inventory				29,252	29,252
June 30, 2007	$ 46,652,430	$ 1,619,428	$ (243,579)	$ 16,551,473	$ 64,579,752

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

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

	Amount
Net Change in Fund Balances - Governmental Funds	$ 11,762,764
Amounts reported for governmental activities in the Statement of Activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchased amounted to $25,596,254, the depreciation expense amounted to $8,239,249, and decreased by $4,056 adjustment.	17,352,949
2. Proceeds of long-term liabilities are reported as revenue in the governmental funds, but not in the statement of activities.	(24,530,000)
3. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Activities.	10,155,000
4. Governmental funds recognize interest on long-term debt when it becomes due, however, the Statement of Activities recognizes interest as it accrues regardless of when it becomes due.	(202,774)
5. Gains and losses on the sale or disposals of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds.	(102,299)
6. Issuance cost for long-term liabilities is reported as expenditures in the governmental funds, but is deferred and amortized in the statement of activities.	(21,554)
Bond premiums, discounts, and loss on redemption of bonds are reported as other financing sources and uses in the governmental funds but are deferred and amortized in the statement of activities.	(631,785)
7. Increase (decrease) in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are decreased (increased) in the statement of activity.	29,252
8. 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	(125,427)
Change in Net Assets of Governmental Activities	$ 13,686,126

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

Statement of Fiduciary Assets and Liabilities
June 30, 2007

	Agency Funds
ASSETS	
Cash and cash equivalents	$ 3,499,916
Due from other governments	164,291
Due from other funds	5,080,928
Total Assets	$ 8,745,135
LIABILITIES	
Accounts payable and accrued liabilities	$ 8,593,138
Due to student clubs	151,997
Total Liabilities	$ 8,745,135

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

1. Summary of Significant Accounting Policies.

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

A. Financial Reporting Entity.

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the school district's governing board. As defined by accounting principles generally accepted in the United States of America, the school district is considered a "primary government." The school district is governed by a five member board to which each member was elected by the citizens of each defined county district.

The DeSoto County Schools Leasing Authority, Inc. ("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 the school district's five-member 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, improvements, construction, and equipping of certain school facilities. Therefore, all of the Authority's assets, liabilities, equity, revenues, expenditures and other financing sources and uses have been included in the government-wide financial statements of the school district (see Note 12).

B. Basis of Presentation.

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

Government-wide Financial Statements:

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

The Statement of Net Assets presents the financial condition of the governmental activities of the school district at year-end. The government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the school district's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

Revenues, which are not classified as program revenues, are presented as general revenues of the school district, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the school district.

Fund Financial Statements:

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

C. Measurement Focus and Basis of Accounting.

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

In the fund financial statements, governmental funds and agency 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.
Limited Tax Note Capital Program Fund – This is a capital projects fund which received the proceeds of the 2006 Limited Tax Note issued for purchasing school buses, transportation equipment, constructing, renovating and equipping schools.
2005 G O Bond Series C Construction Fund - This is a capital projects fund which received the proceeds of the 2005 G O Bond and is paying for new school construction.

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

FUDICIARY 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.

D. Account Classifications.

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

E. Encumbrances.

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

F. Cash and Cash Equivalents.

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

Cash and cash equivalents consist of amounts on deposits 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 valued at cost (calculated on the first-in, first-out basis).

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

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

I. Capital Assets.

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

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

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

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

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

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

J. Long-term liabilities.

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

K. Interfund Transactions and Balances.

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

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

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, construction or improvement of those assets.

2. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

3. Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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

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

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

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

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

Unreserved – designated for, reported in Capital Projects Funds – An account that represents a portion of the unreserved fund balance that the school board has specifically obligated for future repairs, renovations, and construction projects of district buildings and facilities.

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

M. Property Taxes.

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

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 only 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 and Investments.

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

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

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

Cash and Cash Equivalents.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was $66,112,202 and $3,499,916, respectively. The carrying amount of deposits reported in the government-wide financial statements was: cash and cash equivalents - $66,112,202. The bank balance was $77,816,182

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2007, none of the district's bank balance of $38,322,084 was exposed to custodial credit risk.

Investments

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

Investment Type	Maturities (in years)	Fair Value	Rating
Mississippi Education Investment Pool	less than 1	$ 5,523,470	unrated

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

Credit Risk. State law limits investments to those prescribed in Sections 17-105-33(e), Miss. Code Ann. (1972) The district does not have a formal investment policy that would further limit its investments choices or one that addresses credit risk.

Custodial Credit Risk – Investments. Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk.

Concentration of Credit Risk. Disclosures of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U. S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2007, the district had all of its investments in the Mississippi Educational Investment Pool.

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
Major funds:		
General fund	$ 32,815,503	$ 10,523,225
Other major fund		
Limited tax note capital program fund	3,976,189	11,969,887
2005 G O bond series C const fund	12,361,581	24,548,357
Other governmental funds	5,698,249	12,890,981
Fiduciary funds	5,080,928	
Total Funds	$ 59,932,450	$ 59,932,450

"Due from's" consist primarily of approximately $28,000,000 due from capital projects to the general fund and approximately $18,550,000 due from capital projects to other capital projects for construction advances, and $1,600,000 due to the general fund for year end fund loans and $1,300,000 due to the general fund from the debt service funds. Fiduciary funds "due from" is primarily for payment of the final payroll liabilities due under the teacher contracts to be paid in July 2007.

B. Transfers In/Out

	Transfers In	Transfers Out
Major funds:		
General fund	$ 71,545	$ 4,117,334
Other governmental funds	5,488,428	1,442,639
Total Funds	$ 5,559,973	$ 5,559,973

Transfers out consists primarily of approximately $1,150,000 transferred from EEF buildings and buses to debt service, and transfers out of the general fund of $1,740,000 to vocational education, $530,000 to technology in the classroom and $1,640,000 to debt service funds.

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
Non-depreciable capital assets:						
Land	$ 10,410,865	$ -	$ -	$ -	$ -	$ 10,410,865
Construction in progress	112,294,628	21,957,407	-	(121,975,426)		12,276,609
Total non-depreciable capital assets	122,705,493	21,957,407	-	(121,975,426)	-	22,687,474
Depreciable capital assets:						
Buildings	140,946,493	-	-	111,770,328	-	252,716,821
Building improvements	4,647,745	-	-	1,242,728	-	5,890,473
Improvements other than buildings	6,080,907	168,915	-	7,521,001	-	13,770,823
Mobile equipment	15,820,832	1,381,783	913,217	-	-	16,289,398
Furniture and equipment	5,874,142	2,088,149	81,735	1,441,369	-	9,321,925
Total depreciable capital assets	173,370,119	3,638,847	994,952	121,975,426	-	297,989,440
Less accumulated depreciation for:						
Buildings	26,158,487	4,987,506	-	-	-	31,145,993
Building improvements	294,677	235,619	-	-	-	530,296
Improvements other than buildings	670,063	548,083	-	-	-	1,218,146
Mobile equipment	6,955,829	1,306,706	811,735	-	-	7,450,800
Furniture and equipment	3,205,205	1,161,335	80,918	-	4,056	4,289,678
Total accumulated depreciation	37,284,261	8,239,249	892,653	-	4,056	44,634,913
Total depreciable capital assets, net	136,085,858	(4,600,402)	102,299	121,975,426	(4,056)	253,354,527
Governmental activities capital assets, net	$ 258,791,351	$ 17,357,005	$ 102,299	$ -	$ (4,056)	$ 276,042,001

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	$ 108,356
Support services	7,774,323
Non-instructional	356,570
Total depreciation expense	$ 8,239,249

The capital assets above include significant amounts of land, buildings, furniture and equipment which have been valued at estimated historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition.

The reduction adjustment of $4,056 to accumulated depreciation was an immaterial correction for the prior year.

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

Project	Remaining Commitment	Required Future Financing
DeSoto West Elementary School	$ 731,265	$ 731,265
Southaven High School Renovations	3,063,597	3,063,597
New Adminstrative Offices	370,000	370,000
	$ 4,164,862	$ 4,164,862

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	Balance 6/30/2007	Amounts due within one year
A.. General Obligation Bonds	$ 120,900,000	$ -	$ 7,710,000	$ 113,190,000	$ 9,030,000
B. Certificates of Participation	26,550,000	-	1,845,000	24,705,000	1,895,000
C. Three mill-ten year notes Payable	14,800,000	24,530,000	600,000	38,730,000	1,350,000
D. Compensated Absenses Payable	985,413	125,427	-	1,110,840	-
Total	$ 163,235,413	$ 24,655,427	$ 10,155,000	$ 177,735,840	$ 12,275,000

The following is a summary of changes in bond premiums, discounts, loss on bond redemption, and bond costs:

	Balance 7/1/2006	Additions	Reductions	Balance 6/30/2007
Bond Premiums	$ 1,555,601	$ 854,250	$ 169,656	$ 2,240,195
Bond Discounts	(190,861)	(171,710)	(18,429)	(344,142)
Loss on Bond Redemption	(803,776)		(100,472)	(703,304)
Total	$ 560,964	$ 682,540	$ 50,755	$ 1,192,749

	Balance 7/1/2006	Additions	Reductions	Balance 6/30/2007
Bond Issuance Costs	$ 894,818	$ 60,994	$ 82,548	$ 873,264

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:

	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General Obligation Refunding Bonds Series 2002	2.00-5.00%	10/15/2002	2/1/2014	$ 23,015,000	$ 16,815,000
General Obligation Bond A Series 2004	3.50-5.00%	8/10/2004	5/1/2016	36,000,000	25,840,000
General Obligation Bond B Series 2004	3.25-4.00%	8/10/2004	5/1/2014	4,000,000	2,535,000
General Obligation Bond C Series 2005	3.50-5.00%	6/1/2005	5/1/2019	75,000,000	68,000,000
Total				$ 138,015,000	$ 113,190,000

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

Year Ending June 30	Principal	Interest	Total
2008	$ 9,030,000	$ 4,603,568	$ 13,633,568
2009	7,665,000	4,249,668	11,914,668
2010	9,125,000	3,985,981	13,110,981
2011	9,820,000	3,604,206	13,424,206
2012	11,025,000	3,184,269	14,209,269
2013-2017	44,275,000	9,664,713	53,939,713
2018-2020	22,250,000	1,220,000	23,470,000
Total	$ 113,190,000	$ 30,512,405	$ 143,702,405

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 equal to 8% of property assessments as of October 1, 2006. This debt will be retired from the General Obligation Bond Retirement Fund.

B. Certificates of Participation Payable

As more fully explained in Note 12, certificates of participation have been issued by the school district. Certificates of participation currently outstanding are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
2004 Certificate of Participation	various	12/1/2004	12/1/2019	$ 20,120,000	$ 16,745,000
2005 Certificate of Participation	various	7/1/2005	6/1/2020	8,900,000	7,960,000
Total				$ 29,020,000	$ 24,705,000

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

Year Ending June 30	Principal	Interest	Total
2008	$ 1,895,000	$ 895,850	$ 2,790,850
2009	1,940,000	846,544	2,786,544
2010	1,810,000	791,796	2,601,796
2011	1,665,000	740,041	2,405,041
2012	1,720,000	687,134	2,407,134
2013-2017	9,640,000	2,650,784	12,290,784
2018-2020	6,035,000	588,900	6,623,900
Total	$ 24,705,000	$ 7,201,049	$ 31,906,049

This debt will be retired from the General Fund and the EEF Building and Bus Fund.

C. Three mill notes payable.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Limited Tax Notes, Series 2002	3.9 - 5.5%	7/1/2002	4/1/2022	$ 16,450,000	$ 14,200,000
Limited Tax Notes, Series 2006	various	11/20/2006	4/1/2026	24,530,000	24,530,000
Total				$ 40,980,000	$ 38,730,000

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

Year Ending June 30	Principal	Interest	Total
2008	$ 1,350,000	$ 1,760,694	$ 3,110,694
2009	1,410,000	1,696,944	3,106,944
2010	1,470,000	1,637,169	3,107,169
2011	1,530,000	1,579,094	3,109,094
2012	1,590,000	1,579,094	3,169,094
2013-2017	8,995,000	9,582,519	18,577,519
2018-2022	11,215,000	4,334,581	15,549,581
2023-2027	11,170,000	1,269,788	12,439,788
Total	$ 38,730,000	$ 23,439,883	$ 62,169,883

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

D. Compensated absences payable.

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

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 rate for fiscal year ended June 30, 2007, was 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 $10,945,513, $9,835,171, and $7,904,501, respectively, which equaled the required contributions for each year.

7. Other Commitments.

Commitments under construction contracts are described in Note 4.

Commitments under re-roofing and renovation contracts amount to $257,070.

Operating leases:

The school district has several operating leases for the following:

1. Xerox 4100CP copier
2. Xerox 4100CP copier
3. Xerox Pro 90 copier

Lease expenditures for the year ended June 30, 2007 amounted to $54,848. Future lease payments for these leases are as follows:

Year Ending June 30	Amount
2008	$ 56,551
2009	53,626
2010	39,001
2011	26,000
2012	16,250
Total	$ 191,428

8. Deficit Fund Balance of Individual Funds.

The 2005 G O Bond Series C Construction Fund has a deficit fund balance in the amount of $(243,579)

The deficit fund balance is in violation of Section 37-61-19, Miss. Code Ann. (1972). However, this deficit could have been eliminated with a transfer from the District Maintenance Fund (General Fund). Section 37-61-21, Miss. Code Ann. (1972), allows the school board of the school district, with the assistance from the superintendent, to transfer resources to and from functions and funds within the budget when and where needed under certain circumstances. This deficit balance resulted from auditor's adjustments.

9. Prior Period Adjustments/Exhibits.

A summary of significant fund equity adjustments is as follows:

Exhibit B – Statement of Activities

Explanation	Amount
1. Reduction to School Food Service Fund – adjustment to clear cash account of old balance	$ (7,330)
2. Reduction to 2005 FS Summer Prgm fund to correct prior receivable.	(544)
3. Reduction to Limited Tax Note Cap Prog Fund for Retainage Payable paid from here	(21,697)
4. Increase to 2005 Certificate of Participation Fund due to final retainage payment moved to other fund.	21,697
	$ (7,874)

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

Major funds:	Explanation	Amount
1. Reduction to Other governmental funds	See explanation for Exhibit B	$ (7,874)

10. Litigation.

The DeSoto County School District is subject to various legal proceedings in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be a material adverse effect on the combined financial statements as a result of the cases presently in progress.

11. 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 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.

Participation in Self Insurance Trust.

The school district established a self-insurance trust in July 2004 which pays the first $50,000 of property and liability claims against the district. An initial $150,000 was deposited into the trust account, and is evaluated each year for the proper amount to be replaced. An additional $35,185 was transferred to the fund during fiscal year end 2007. The district had no year end liability because cash on deposit in the trust of $149,996 (reported on the governmental funds balance sheet in other governmental funds) exceeded the unpaid claims.

12. Trust Certificates.

A trust agreement dated December 1, 2004 was executed by and between the school district and Trustmark National Bank as trustees.

The trust agreement authorized the issuance of trust certificates in the principal amount of $20,120,000. Approximately $19,906,041 was used to provide financing for the construction and renovation of school buildings and related facilities and equipment (the "project"). The remainder of approximately $213,959 was used to pay the cost of issuance.

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

It is not anticipated the project will have sufficient value to satisfy the certificates in the event the school district defaults under the lease; therefore, the source of payment of the certificates is the responsibility of the school district. See Note 5 for details regarding the debt service requirement on the trust certificates.

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

13. Subsequent Events.

On August 7, 2006, the Board approved issuance of notes for $33,000,000 for purchasing school buses, transportation equipment, constructing, renovating and equipping schools. On November 20, 2006, $24,530,000 of this amount was issued. On October 1, 2007, the remainder of $8,470,000 was approved for issuance, and the board also approved the purchase of over $2,300.000 in transportation equipment . On November 15, 2007, an interlocal agreement was approved to trade the City of Southaven a parcel of land at Desoto Central School in exchange for the city adding additional parking at Southaven High School.

DESOTO COUNTY SCHOOL DISTRICT

REQUIRED SUPPLEMENTAL INFORMATION

DESOTO COUNTY SCHOOL DISTRICT
Budgetary Comparison Schedule – General Fund
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variances Positive (Negative)	
	Original	Final	(GAAP Basis)	Original to Final	Final to Actual
Revenues:					
Local sources	$ 48,572,268	$ 50,999,411	$ 51,832,036	$ 2,427,143	$ 832,625
State sources	106,793,172	107,812,769	108,889,670	1,019,597	1,076,901
Federal sources	775,000	775,000	898,298	-	123,298
Total Revenues	156,140,440	159,587,180	161,620,004	3,446,740	2,032,824
Expenditures:					
Instruction	87,462,728	92,961,507	90,557,091	(5,498,779)	2,404,416
Support services	59,970,956	59,870,753	54,115,583	100,203	5,755,170
Noninstructional services	1,332,150	1,327,100	1,249,233	5,050	77,867
Facilities acquisition and construction	1,445,000	5,000,000	1,745,953	(3,555,000)	3,254,047
Total Expenditures	150,210,834	159,159,360	147,667,860	(8,948,526)	11,491,500
Excess (Deficiency) of Revenues Over Expenditures	5,929,606	427,820	13,952,144	(5,501,786)	13,524,324
Other Financing Sources (Uses):					
Insurance loss recoveries	-	-	62,983	-	62,983
Sale of transportation equipment	-	-	50,732	-	50,732
Operating transfers in	7,752,465	6,917,625	71,545	(834,840)	(6,846,080)
Other financing sources	-	-	336,173	-	336,173
Operating transfers out	(12,513,829)	(17,325,019)	(4,117,334)	(4,811,190)	13,207,685
Other financing uses	-	-	(259,295)	-	(259,295)
Total Other Financing Sources (Uses)	(4,761,364)	(10,407,394)	(3,855,196)	(5,646,030)	6,552,198
Net Change in Fund Balances	1,168,242	(9,979,574)	10,096,948	(11,147,816)	20,076,522
Fund Balances:					
July 1, 2006	19,831,500	35,936,041	36,555,482	16,104,541	619,441
July 1, 2006, as restated	19,831,500	35,936,041	36,555,482	16,104,541	619,441
Residual equity transfer in (out)	-	-	-	-	-
June 30, 2007	$ 20,999,742	$ 25,956,467	$ 46,652,430	$ 4,956,725	$ 20,695,963

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

Budgetary Comparison Schedule

1. Basis of Presentation.

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

2. Budget amendments and revisions.

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

SUPPLEMENTAL INFORMATION

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

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
U.S. Department of Agriculture		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	$ 554,150
Child nutrition cluster:		
School breakfast program	10.553	575,899
National school lunch program	10.555	3,980,894
Summer food service program for children	10.559	2,183
Total child nutrition cluster		4,558,976
Fresh fruit and vegetable program	10.582	103,865
Team nutrition grants	10.574	12,235
Total U.S. Department of Agriculture		5,229,226
Federal Communications Commission		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.XXX	429,917
Total Federal Communications Commission		429,917
U.S. Department of Education		
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	2,697,453
Vocational education - basic grants to states	84.048	194,073
Safe and drug-free schools and communities - state grants	84.186	85,439
State grants for innovative programs	84.298	40,696
Education technology state grants	84.318	26,716
Teacher quality enhancement grants	84.336	500
English language acquisition grants	84.365	155,033
Improving teacher quality - state grants	84.367	823,837
Grants for state assessments and related activities	84.369	10,500
Hurricane education recovery	84.938	363,851
Total		4,398,098
Special education cluster:		
Special education - grants to states	84.027	4,303,946
Special education - preschool grants	84.173	153,768
Total		4,457,714
Total passed-through Mississippi Department of Education		8,855,812
Total U.S. Department of Education		8,855,812
Total for All Federal Awards		$ 14,514,955

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.

DESOTO COUNTY SCHOOL DISTRICT
Schedule of Instructional, Administrative and Other Expenditures – Governmental Funds
For the Year Ended June 30, 2007

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	$ 130,151,406	$ 101,831,836	$ 4,184,446	$ 7,562,464	$ 16,572,660
Other	83,403,418	14,445,246	1,363,519	493,473	67,101,180
Total	$ 213,554,824	$ 116,277,082	$ 5,547,965	$ 8,055,937	$ 83,673,840
Total number of students	28,600	28,600	28,600	28,600	28,600
Cost per student	$ 7,467	$ 4,065	$ 194	$ 282	$ 2,926

For the 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 function codes)

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

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

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

DESOTO COUNTY SCHOOL DISTRICT

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

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WILLIAMS • PITTS • BEARD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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

Superintendent and School Board
DeSoto County School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the DeSoto County School District as of and for the year ended June 30, 2007, which collectively comprise the DeSoto County School District's basic financial statements and have issued our report thereon dated January 14, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2007-1 to be a significant deficiency in internal control over financial reporting.

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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 and, accordingly would not necessarily disclose all significant deficiencies that are also considered to be a material weaknesses. However, we believe that the significant deficiency described above is not a material weekness.

Compliance and Other Matters

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

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Certified Public Accountants
January 14, 2008

WILLIAMS • PITTS • BEARD, PLLC
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
DeSoto County School District

Compliance

We have audited the compliance of the DeSoto County 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 accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the 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, DeSoto County 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.

Continued...

Continued...

Internal Control Over Compliance

The management of the DeSoto County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the school district's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

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

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the interal 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.

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Certified Public Accountants
January 14, 2008

WILLIAMS • PITTS • BEARD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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

Superintendent and School Board
DeSoto County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the DeSoto County School District as of and for the year ended June 30, 2007, which collectively comprise DeSoto County School District's basic financial statements and have issued our report thereon dated January 14, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States..

Section 37-9-18 (3), Miss. Code Ann. (1972) states in part, "the auditor shall test to insure that the school district is complying with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds". As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain 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 $444,032 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 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.

Continued...

Continued…

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.

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Certified Public Accountants
January 14, 2008

DESOTO COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

DESOTO COUNTY 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. Significant deficiencies identified that are not considered to be material weaknesses? Yes

Federal Awards:

4. Type of auditor's report issued on compliance for major federal programs: Unqualified

5. Internal control over major programs:

   a. Material weakness (es) identified? No

   b. Significant deficiencies identified that are not considered to be material weaknesses? None Reported

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. Child nutrition cluster:
      CFDA#10.553, 10.555, 10.559
   b. Food Distribution
      CFDA#10.550
   c. Title I grants to local educational agencies
      CFDA#84.010

8. The dollar threshold used to distinguish between type A and type B programs: $435,449

9. Auditee qualified as a low-risk auditee? No

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

Section 2: Findings Related to the Financial Statements

Reportable Conditions:

2007-1 Finding

Financial statements for FY05 and for FY06 contained a Due from Other Governments amount of $162,897 which was due from the Internal Revenue Service for an overpayment on 941 taxes. As of the date of this report, this money had not been received or credit issued.

Recommendation

The DeSoto County School District should contact the Internal Revenue Service and get the district's money refunded before the Statute of Limitations expires on this amount.

Response

The District will try to have the IRS assign an advocate since we are making no headway with the usual lines of communication with the IRS.

Section 3: Findings Related to Federal Awards

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

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