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NATCHEZ-ADAMS SCHOOL DISTRICT

*Audited Financial Statements,
Management's Discussion and Analysis,
Supplemental Information and
Auditors' Reports on Internal Control
Over Financial Reporting, Compliance
and Other Matters*

Year Ended June 30, 2007

Smith, Turner & Reeves

A Professional Association of Certified Public Accountants and Consultants

NATCHEZ-ADAMS SCHOOL DISTRICT

**AUDITED FINANCIAL STATEMENTS,
MANAGEMENT'S DISCUSSION AND ANALYSIS,
SUPPLEMENTAL INFORMATION AND
AUDITORS' REPORTS ON INTERNAL CONTROL
OVER FINANCIAL REPORTING,
COMPLIANCE AND OTHER MATTERS**

YEAR ENDED JUNE 30, 2007

NATCHEZ-ADAMS SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS, MANAGEMENT'S DISCUSSION AND ANALYSIS, SUPPLEMENTAL INFORMATION AND AUDITORS' REPORTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING, COMPLIANCE AND OTHER MATTERS

YEAR ENDED JUNE 30, 2007

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522 Main Street
Natchez, MS 39120

P. O. Box 1103
Natchez, MS 39121-1103

601.446.6681
Fax 601.445.6630
www.str-cpa.com

Superintendent and School Board
Natchez-Adams School District

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Natchez-Adams School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Natchez-Adams 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Natchez-Adams School District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Natchez-Adams School District as of June 30, 2007, and the respective changes in financial position and cash flows where applicable, thereof and 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 December 6, 2007, on our consideration of Natchez-Adams School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws,

regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and the Required Supplemental Information, as listed in the table of contents, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental 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 Natchez-Adams School District's basic financial statements. The accompanying Other Supplemental Information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Natchez-Adams School District. The Schedule of Expenditures of Federal Awards is presented as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Natchez-Adams School District. 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.

December 6, 2007
Natchez, Mississippi

NATCHEZ-ADAMS SCHOOL DISTRICT

"No Child Left Behind"

10 Homochitto Street · P.O. Box 1188
Natchez, Mississippi 39120
Telephone: 601-442-0212
natchez.k12.ms.us

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

The discussion and analysis of Natchez-Adams 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.

The district is an accredited district and is comprised of eight schools serving pre-kindergarten through twelfth grade, including a vocational school and an alternative school. Enrollment for the fall of 2006 was 4,305 students.

FINANCIAL HIGHLIGHTS

- Total net assets increased \$2,158,403, which represents a 6.8% increase from fiscal year 2006.
- The District had \$36,875,911 in expenses; \$8,903,834, or 24%, of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$30,130,480 were adequate to provide for these programs.
- Among major funds, the General Fund had \$27,815,227 in revenues and \$26,038,360 in expenditures. The General Fund's fund balance increased by \$645,355. This was primarily the result of a 12% increase in revenues received from the state MAEP funds corresponding to only an 8% increase in expenditures.
- Capital assets, net of accumulated depreciation, decreased by \$513,966.
- The District reduced its outstanding long-term debt by \$640,000, or 5.9%.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the School District's basic financial statements. The School 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 School 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 School 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 School District is improving or deteriorating.

The *Statement of Activities* presents information showing how the School 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 School District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the School 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 13 - 14 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 School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the School 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 School 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 School 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 16 and 18, respectively, of this report.

The School 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 15 - 18 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the School District's own programs. The accrual basis of accounting is used for fiduciary funds. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The School District's fiduciary activities are presented in separate *Statement of Fiduciary Assets and Liabilities* on page 19.

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 20-32 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 School District's budget process.

The School District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major special revenue fund. This required supplementary information can be found on pages 33-36 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and a schedule of instructional, administrative and other expenditures for governmental funds can be found on pages 37-39, respectively, of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of the government's financial position. In the case of the School District, assets exceeded liabilities by \$34,114,928 as of June 30, 2007.

The largest single portion of the School District's net assets is the restricted assets of Sixteenth Section Principal. These assets comprise 49%, or \$16,864,422, of the School District's net assets. Only the interest derived from these funds is expendable. The Board of Education has the authority to borrow these funds at a rate of four percent (4%) per annum and for a term not exceeding twenty (20) years. Eighteen percent (18%), or \$6,104,401, of the School District's net assets reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, and furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The School District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending.

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

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

	Net Assets			
	June 30, 2007	June 30, 2006	Dollar Change	Percent Change
Current assets	\$ 30,599,957	\$ 28,826,471	\$ 1,773,486	6.15%
Capital assets, net	16,376,974	16,890,940	(513,966)	(3.04)%
Total assets	<u>46,976,931</u>	<u>45,717,411</u>	<u>1,259,520</u>	2.76%
Current liabilities	3,294,431	3,555,388	(260,957)	(7.34)%
Long-term liabilities	9,567,572	10,206,108	(638,536)	(6.26)%
Total Liabilities	<u>12,862,003</u>	<u>13,761,496</u>	<u>(899,493)</u>	(6.54)%
Net assets:				
Invested in capital assets, net of related debt	6,104,401	6,265,940	(161,539)	(2.58)%
Restricted	18,140,700	17,633,463	507,237	2.88%
Unrestricted	9,869,827	8,056,512	1,813,315	22.50%
Total net assets	<u>\$ 34,114,928</u>	<u>\$ 31,955,915</u>	<u>\$ 2,159,013</u>	6.75%

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

- The principal retirement of \$640,000 of long-term debt.
- The addition of \$23,398 in capital assets.
- The sale or scrapping of capital assets for a net loss of \$228.
- Annual depreciation expense of \$537,136.

Changes in net assets. The School District's total revenues for the fiscal year ended June 30, 2007 were \$39,034,314. The total cost of all programs and services was \$36,875,911. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2007 and 2006.

	Change in Net Assets		Dollar Change	Percent Change
	2007	2006		
Revenues:				
Program revenues:				
Charges for services	\$ 366,490	\$ 504,989	\$ (138,499)	(27.43)%
Operating grants and contributions	8,537,344	10,083,287	(1,545,943)	(15.33)%
General revenues:				
Property taxes	9,140,669	9,133,261	7,408	0.08%
Grants and contributions not restricted	18,852,448	17,068,052	1,784,395	10.45%
Other	2,137,363	1,417,172	720,192	50.82%
Total revenues	<u>39,034,314</u>	<u>38,206,761</u>	<u>827,553</u>	2.17%
Expenses				
Instruction	21,240,275	20,740,313	499,962	2.41%
Support services	12,903,827	12,870,745	33,082	0.26%
Noninstructional services	2,208,098	2,685,796	(477,698)	(17.79)%
Sixteenth Section	20,967	3,468	17,499	504.58%
Interest and other expenses on long-term debt	502,744	553,511	(50,767)	(9.17)%
Total expenses	<u>36,875,911</u>	<u>36,853,833</u>	<u>22,078</u>	0.06%
Increase in net assets	<u>\$ 2,158,403</u>	<u>\$ 1,352,928</u>	<u>\$ 805,475</u>	59.54%

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

- General revenues from MAEP increased by \$1,774,286 in 2007.
- Earnings on investments increased forty-five percent (45%), or \$452,191, in the general revenues.
- Timber sales increased by \$251,296 in 2007.
- During fiscal year 2006, the District received \$1,882,351 in program revenues from Red Cross and the Hurricane Education Recovery Act.
- In 2006, the District served as a flow-through agency for the Hurricane Education Recovery Act for non-public schools. \$315,305, charged to non-instructional services, was transferred to four local non-public schools.

Governmental activities. The following table presents the cost of five major School District functional activities: instruction, support services, non-instructional, sixteenth section and interest and other expenses on long-term debt for fiscal years ending June 30, 2007 and 2006, respectively. 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 School District's taxpayers by each of these functions.

Net Cost of Governmental Activities

	<u>Total Cost of Services</u>		Percent Change	<u>Net Cost of Services</u>		Percent Change
	<u>2007</u>	<u>2006</u>		<u>2007</u>	<u>2006</u>	
Expenditures:						
Instruction	\$ 21,240,275	\$ 20,740,313	2.41%	\$ 16,516,949	\$ 14,697,171	12.38%
Support services	12,903,827	12,870,745	0.26%	9,014,894	11,234,579	(19.76)%
Noninstructional	2,208,098	2,685,796	(17.79)%	1,916,523	(215,304)	(990.15)%
Sixteenth section	20,967	3,468	504.58%	20,967	3,468	504.58%
Interest on long-term liabilities	502,744	553,511	(9.17)%	502,744	545,643	(7.86)%
	<u>\$ 36,875,911</u>	<u>\$ 36,853,833</u>	0.06%	<u>\$ 27,972,077</u>	<u>\$ 26,265,557</u>	6.50%

The total cost of basic programs rose .06 percent to \$36,875,911. Because the portion of those costs paid for with charges, fees, grants and contributions decreased, the net cost that required taxpayer funding grew 6.50 percent to \$27,972,077. General revenues, which are made up of primarily property taxes (\$9,140,032), state revenue, (\$18,295,551), and unrestricted investment earnings (\$1,452,276) more than financed the net cost of governmental activities (\$27,972,077).

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the School District as a whole is reflected in its governmental funds. As the School District completed the year, its governmental funds reported a combined fund balance of \$28,228,894, an increase of \$2,158,403 due primarily to increased revenue from the state, continuing high investment rates, and conservative spending by the District. \$10,207,216, or 36 percent, of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the School District's discretion. The remaining fund balance of \$18,021,678, or 64 percent, is reserved or designated to indicate that it is not available for spending because it has already been committed or legally restricted.

A list of these reserves follows.

	<u>Amount</u>
Reserved for advances	\$ 310,954
Reserved for inventory	139,117
Reserved for unemployment benefits	105,241
Reserved for forestry improvements	36,664
Reserved for capital projects	2
Reserved for debt service	565,278
Reserved for permanent funds	<u>16,864,422</u>
Total reserves	<u><u>\$ 18,021,678</u></u>

The General Fund is the principal operating fund of the School District. The increase in fund balance in the General Fund for the fiscal year was \$645,355, a result of increased revenues from the state, debt cancellation in 2006, and conservative spending. The fund balance of Sixteenth Section Interest Fund showed an increase of \$1,040,593, due to an increase in interest earnings and timber sales. Sixteenth Section Principal Fund showed an increase from the receipts of oil and gas royalties. Other Governmental Funds showed an increase due to the receipt of funds from city trust funds and final debt payments in 2006.

BUDGETARY HIGHLIGHTS

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

General Fund:

Original budgeted local revenues in the General Fund were underestimated concerning interest on investments. Salaries and associated benefits, utilities, and transportation costs were overestimated in the original budget.

Title I Fund:

Original budgeted revenues and expenditures were underestimated due to the unknown amount of carryover funds and 2007 final allocation.

Sixteenth Section Interest Fund:

Actual revenues exceeded budgeted amounts in this fund in leases, interest earnings, and sale of timber.

A schedule showing the original and final budget amounts compared to the District’s actual financial activity for the General Fund, Title I Fund, and Sixteenth Section Interest Fund is provided in this report as required supplementary information.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2007, the School District had invested \$27,420,360 in capital assets, including land school buildings, school vehicles, furniture and equipment. This amount represents an increase of \$577, prior to depreciation, from the previous year. Total accumulated depreciation as of June 30, 2007, was \$11,043,386, and total depreciation expense for the year was \$537,136, resulting in total net assets of \$16,376,974. Net capital assets decreased from the previous year by \$513,966. The following table presents net capital assets for fiscal years ended June 30, 2007 and 2006.

Net Capital Assets			
	<u>2007</u>	<u>2006</u>	<u>Change</u>
Land	\$ 2,054,130	\$ 2,054,130	\$ -
Buildings	10,795,886	11,053,725	(257,839)
Building improvements	3,326,262	3,522,856	(196,594)
Other improvements	20,725	21,815	(1,090)
Mobile equipment	51,905	60,535	(8,630)
Furniture and equipment	128,066	177,879	(49,813)
Total	<u>\$ 16,376,974</u>	<u>\$ 16,890,940</u>	<u>\$ (513,966)</u>

Additional information of the School District’s capital assets can be found in Note 4 on page 27 of this report.

Debt Administration. At June 30, 2007, the School District had \$9,985,000 in general obligation bonds and other long-term debt outstanding, plus an additional estimated \$287,572 in compensated absences payable. Of this amount, \$705,000 is due within one year.

Outstanding Long-Term Debt

	<u>2007</u>	<u>2006</u>	<u>Change</u>
Limited obligation bonds payable	\$ 5,805,000	\$ 6,165,000	(5.84)%
Certificates of participation payable	4,180,000	4,460,000	(6.28)%
Compensated absences payable	<u>287,572</u>	<u>241,108</u>	19.27%
 Total	 <u>\$ 10,272,572</u>	 <u>\$ 10,866,108</u>	 (5.46)%

The District maintains an AA- bond rating.

Additional information of the School District’s long-term debt can be found in Note 5 on pages 28 and 29 of this report.

CURRENT ISSUES

The School District is funded mainly by state aid (MAEP) and local taxes.

MAEP is calculated using student average daily attendance (ADA). Since 1999, the School District’s ADA has fallen by an average of 100 students each year. Although there was a temporary influx of displaced students in 2006 due to hurricanes Katrina and Rita, these students, for the most part, have left, and the enrollment decline has resumed. This has had a negative impact on the School District’s financial picture.

Locally, the assessed valuations in Adams County decreased by over \$19 million in the recent years, due in large part to the closings of major industries. However, the assessments for the 2007 and 2008 school years have increased by approximately \$8 million.

The School District has committed itself to financial excellence for many years and to the community it serves. It plans to continue its sound fiscal management to meet the challenges of the future by using fund balances, maximizing other revenue sources and reducing staffing and operating costs wherever possible.

CONTACTING THE SCHOOL DISTRICT’S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent’s Office of the Natchez-Adams School District, 10 Homochitto Street, Natchez, Mississippi 39120.

Natchez-Adams School District
Statement of Net Assets
June 30, 2007

Exhibit A

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 10,189,257
Cash with fiscal agents	233,999
Accrued interest receivable	38,506
Due from other governments	2,038,231
Other receivables, net	177,265
Inventories and prepaid items	139,118
Restricted assets	17,783,581
Capital assets, not being depreciated:	
Land	2,054,130
Capital assets, net of accumulated depreciation:	
Buildings	10,795,886
Building improvements	3,326,262
Improvements other than buildings	20,725
Mobile equipment	51,905
Furniture and equipment	128,066
	<hr/>
Total Assets	\$ <u><u>46,976,931</u></u>
Liabilities	
Accounts payable and accrued liabilities	\$ 2,371,063
Interest payable on long-term liabilities	218,368
Long-term liabilities, due within one year	
Capital related liabilities	685,000
Non-capital related liabilities	20,000
Long-term liabilities, due beyond one year	
Capital related liabilities	9,300,000
Non-capital related liabilities	267,572
	<hr/>
Total Liabilities	\$ <u><u>12,862,003</u></u>
Net Assets	
Invested in capital assets, net of related debt	\$ 6,391,974
Restricted net assets:	
Expendable:	
School-based activities	787,461
Debt service	346,910
Capital improvements	2
Forestry improvements	36,664
Unemployment benefits	105,241
Non-expendable:	
Sixteenth Section	16,864,422
Unrestricted	9,582,254
	<hr/>
Total Net Assets	\$ <u><u>34,114,928</u></u>

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

Natchez-Adams School District
Statement of Activities
For the Year Ended June 30, 2007

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Instruction	\$ 21,240,275	\$ 213,168	\$ 4,510,158	\$ -	\$ (16,516,949)
Support services	12,903,827	-	3,888,933	-	(9,014,894)
Noninstructional services	2,208,098	153,322	138,253	-	(1,916,523)
Sixteenth Section	20,967	-	-	-	(20,967)
Interest and other expenses on long-term liabilities	502,744	-	-	-	(502,744)
Total governmental activities	36,875,911	366,490	8,537,344	-	(27,972,077)
General Revenues:					
Taxes:					
General purpose levies					9,140,032
Debt purpose levies					637
Unrestricted grants and contributions:					
State					18,295,551
Federal					420,935
Other					135,962
Unrestricted investment earnings					1,452,276
Sixteenth Section sources					621,785
Other					63,302
Total General Revenues					30,130,480
Change in Net Assets					2,158,403
Net Assets - Beginning					31,955,915
Prior period adjustments					610
Net Assets - Beginning - Restated					31,956,525
Net Assets - Ending					\$ 34,114,928

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

Natchez-Adams School District
 Balance Sheet - Governmental Funds
 June 30, 2007

Exhibit C

	Major Funds					Total Governmental Funds
	General Fund	Title I Low Grant Fund	16th Section Interest Fund	16th Section Principal Fund	Other Governmental Funds	
ASSETS						
Cash and cash equivalents	\$ 4,721,710	\$ -	\$ 4,514,254	\$ 17,783,582	\$ 953,292	\$ 27,972,838
Cash with fiscal agent	-	-	-	-	233,999	233,999
Accrued interest receivable	38,506	-	-	-	-	38,506
Due from other governments	530,384	580,527	-	-	927,320	2,038,231
Other receivables, net	113,376	-	-	26,183	37,706	177,265
Due from other funds	665,280	-	957,895	-	32,484	1,655,659
Advances to other funds	-	-	-	310,954	-	310,954
Inventories and prepaid items	81,639	-	-	-	57,479	139,118
Total assets	\$ 6,150,895	\$ 580,527	\$ 5,472,149	\$ 18,120,719	\$ 2,242,280	\$ 32,566,570
LIABILITIES & FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities	\$ 1,644,703	\$ 310,720	\$ -	\$ -	\$ 415,640	\$ 2,371,063
Due to other funds	108,512	269,807	-	945,343	331,997	1,655,659
Advances from other funds	310,954	-	-	-	-	310,954
Total liabilities	2,064,169	580,527	-	945,343	747,637	4,337,676
Fund balances:						
Reserved for:						
Advances	-	-	-	310,954	-	310,954
Inventory	81,639	-	-	-	57,478	139,117
Unemployment benefits	-	-	-	-	105,241	105,241
Forestry improvements	-	-	-	-	36,664	36,664
Capital project purposes	2	-	-	-	-	2
Debt service purposes	-	-	-	-	565,278	565,278
Permanent fund purposes	-	-	-	16,864,422	-	16,864,422
Undesignated, reported in:						
General fund	4,005,085	-	-	-	-	4,005,085
Special revenue funds	-	-	5,472,149	-	729,982	6,202,131
Total fund balances	4,086,726	-	5,472,149	17,175,376	1,494,643	28,228,894
Total liabilities & fund balances	\$ 6,150,895	\$ 580,527	\$ 5,472,149	\$ 18,120,719	\$ 2,242,280	\$ 32,566,570

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

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

Exhibit C-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 28,228,894
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 \$11,043,386.	16,376,974
2. Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(10,272,572)
3. Governmental funds recognize interest on long-term debt when it becomes due; however, the Statement of Net Assets recognizes interest as it accrues.	(218,368)
Total Net Assets - Governmental Activities	<u>\$ 34,114,928</u>

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

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

Exhibit D

	Major Funds				Other Governmental Funds	Total Governmental Funds
	General Fund	Title I Low Grant Fund	16 Section Interest Fund	16th Section Principal Fund		
REVENUES						
Local sources	\$ 9,653,580	\$ -	\$ -	\$ -	\$ 274,950	\$ 9,928,530
State sources	17,669,891	-	-	-	1,486,995	19,156,886
Federal sources	491,756	2,317,566	-	-	5,307,181	8,116,503
Sixteenth Section sources	-	-	595,798	1,195,461	41,136	1,832,395
Total revenues	<u>27,815,227</u>	<u>2,317,566</u>	<u>595,798</u>	<u>1,195,461</u>	<u>7,110,262</u>	<u>39,034,314</u>
EXPENDITURES						
Instruction	15,332,185	1,646,672	-	-	3,765,603	20,744,460
Support services	10,686,075	497,014	-	-	1,691,502	12,874,591
Noninstructional services	2,335	125,788	-	-	2,067,191	2,195,314
Sixteenth Section	-	-	-	-	20,967	20,967
Debt service:	-	-	-	-	-	-
Principal	-	-	-	-	640,000	640,000
Interest	17,765	-	-	-	499,475	517,240
Other	-	-	-	-	3,422	3,422
Total expenditures	<u>26,038,360</u>	<u>2,269,474</u>	<u>-</u>	<u>-</u>	<u>8,688,160</u>	<u>36,995,994</u>
Excess (deficiency) of revenues over expenditures	<u>1,776,867</u>	<u>48,092</u>	<u>595,798</u>	<u>1,195,461</u>	<u>(1,577,898)</u>	<u>2,038,320</u>
OTHER FINANCING SOURCES (USES)						
Operating transfers in	64,033	-	945,342	-	1,721,201	2,730,576
Operating transfers out	(1,195,545)	(48,092)	(500,547)	(945,343)	(41,049)	(2,730,576)
Total other financing sources (uses)	<u>(1,131,512)</u>	<u>(48,092)</u>	<u>444,795</u>	<u>(945,343)</u>	<u>1,680,152</u>	<u>-</u>
Net change in fund balances	<u>645,355</u>	<u>-</u>	<u>1,040,593</u>	<u>250,118</u>	<u>102,254</u>	<u>2,038,320</u>
Fund balances:						
July 1, 2006, as previously reported	3,428,528	-	4,431,556	16,925,258	1,382,028	26,167,370
Prior period adjustments	-	-	-	-	610	610
July 1, 2006, as restated	<u>3,428,528</u>	<u>-</u>	<u>4,431,556</u>	<u>16,925,258</u>	<u>1,382,638</u>	<u>26,167,980</u>
Increase (decrease) in reserve for inventory	12,843	-	-	-	9,751	22,594
June 30, 2007	<u>\$ 4,086,726</u>	<u>\$ -</u>	<u>\$ 5,472,149</u>	<u>\$ 17,175,376</u>	<u>\$ 1,494,643</u>	<u>\$ 28,228,894</u>

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

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

Exhibit D-1

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ 2,038,320
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 purchase amounted to \$23,398 and the depreciation expense amounted to \$537,136.	23,398 (537,136)
2. 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.	640,000
3. 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.	17,919
4. 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.	(228)
5. Increase in the inventory is reported as an adjustment to fund balance in the governmental funds, but support and noninstructional expenditures are increased in the Statement of Activities.	22,594
6. Expenses in the Statement of Activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds.	
Compensated absences	<u>(46,464)</u>
Change in Net Assets of Governmental Activities	<u>\$ 2,158,403</u>

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

**Natchez-Adams School District
Statement of Fiduciary Assets and Liabilities
June 30, 2007**

Exhibit E

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 591,466
Total Assets	<u>\$ 591,466</u>
LIABILITIES	
Accounts payable and accrued liabilities	\$ 522,072
Due to student clubs	<u>69,394</u>
Total Liabilities	<u>\$ 591,466</u>

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

**NATCHEZ-ADAMS SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

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

A. Financial Reporting Entity.

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the School District's governing board and its blended component unit. 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, where two are appointed by the Adams County Board of Supervisors and three are appointed by the City of Natchez Board of Alderman.

The Natchez-Adams School District Leasing Authority (the Authority), as explained in the following paragraph, is considered to be a blended component unit as determined by Section 2100 of the *Codification of Governmental Accounting and Financial Reporting Standards* and is included in the School District's reporting entity.

The Authority is governed by a six member board which was appointed by the School District's governing board. Although it is legally separate from the School District, it is reported as if it is part of the primary government because its sole purpose is to provide financing for the renovation, improvement, construction, and equipping of certain school facilities. Therefore, all of the Authority's assets, liabilities, equity, revenues, expenditures and other financing sources and uses have been included in the government-wide financial statements of the School District (see Note 11).

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 non-exchange revenues.

The Statement of Net Assets presents the financial condition of the governmental activities of the School District at year-end. The Government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not 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 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 60 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.

Title I Fund - This is the school district's federal reimbursable fund that serves to fund remedial math and reading services to low-income, program eligible students.

Sixteenth Section Interest Fund - This fund contains expendable Sixteenth Section funds. Sources include revenues from leases, interest, and sale of timber. It may be used to purchase investments, transfer to the School District maintenance fund, and pay drainage district taxes and Sixteenth Section land improvements.

Sixteenth Section Principal Fund - This fund contains non-expendable Sixteenth Section funds. Sources include revenues from easements and right-of-ways, permanent damages, sale of Sixteenth Section lands, sale of non-renewable resources, sale of buildings, and interest. Funds may be used to purchase investments, purchase lieu lands, loans for school building purposes, forest stand improvements and purchase of school buses.

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

Additionally the School District reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

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

FIDUCIARY FUNDS

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

D. Account Classifications.

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

E. Encumbrances.

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

F. Cash and Cash Equivalents.

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

Cash and cash equivalents consist of amounts on deposit in demand accounts and certificates of deposit with maturities of three (3) 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 presented 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 costs of such items are accounted for as expenditures in the period of acquisition.

I. Capital Assets.

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

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

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

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

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

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

(**) 15 year estimated useful life for relocatable buildings.

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 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. Noncurrent portions of long-term interfund loan receivables are reported as advances and are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and, therefore, are not available for appropriation.

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

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

L. Equity Classifications.

Government-wide Financial Statements:

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

1. Invested in capital assets, net of related debt - Consists of capital assets, including restricted capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, constructions, or improvement of those assets.
2. Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

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

Fund Financial Statements:

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

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

Reserved for advances - An account used to offset advances recorded in the asset accounts since they do not constitute available spendable resources and are not a component of net current assets.

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

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

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

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

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

M. Property Taxes.

Ad valorem property taxes are levied by the governing authority of the 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 School 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, or an employee retires.

(2) CASH AND CASH EQUIVALENTS AND CASH WITH FISCAL AGENTS

Cash and Cash Equivalents and Cash with Fiscal Agents.

The School District follows the practice at 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 Deposit 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 obligation; (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 \$27,972,838 and \$591,466, respectively. The carrying amount of deposits reported in the government-wide statements was: cash and cash equivalents \$10,189,257 and restricted assets \$17,783,581. The restricted assets represent the cash balance of the Sixteenth Section Principal funds (Permanent Funds) which is legally restricted and may not be used for purposes that support the School District's programs. The bank balance was \$29,594,378.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the School 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 School 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 School District. As of June 30, 2007, \$0 of the School District's bank balance of \$29,594,378 was exposed to custodial credit risk.

Cash With Fiscal Agents.

The carrying amount of the School District's cash with fiscal agents held by financial institutions was \$233,999.

(3) INTERFUND TRANSACTIONS AND BALANCES.

The following is a summary of interfund transactions and balances:

(A) Due From/To Other Funds:	<u>Due From</u>	<u>Due To</u>
Governmental funds:		
General Fund	\$ 665,280	\$ 108,512
Title I	-	269,807
16th Section Interest Fund	957,895	-
16th Section Principal Fund	-	945,343
Other governmental funds	32,484	331,997
	<u>32,484</u>	<u>331,997</u>
Total funds	<u>\$ 1,655,659</u>	<u>\$ 1,655,659</u>

The amounts due to/from other funds represent amounts advanced or received for timing differences between revenues and expenditures and loans to cover cash deficits in pooled bank accounts.

(B) Advances To/From Other Funds:	<u>Advances To</u>	<u>Advances From</u>
Governmental funds:		
General Fund	\$ -	\$ 310,954
16th Section Principal Fund	310,954	-
	<u>310,954</u>	<u>-</u>
Total funds	<u>\$ 310,954</u>	<u>\$ 310,954</u>

The Sixteenth Section principal loans payable is not reflected on the Statement of Net Assets because these funds were borrowed by the General Fund from the Sixteenth Section Trust Fund (Permanent Trust) in accordance with Section 29-3-113, Miss. Code Ann. (1972). The revenues and expenditures associated with these transactions were reflected on Exhibit D-1. These loans were for capital expenditures and repairs.

Sixteenth Section Principal Loans Payable.

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

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 138,510	\$ 12,439	\$ 150,949
2009	144,051	6,898	150,949
2010	28,393	1,135	29,528
	<u>310,954</u>	<u>20,472</u>	<u>331,426</u>
Total	<u>\$ 310,954</u>	<u>\$ 20,472</u>	<u>\$ 331,426</u>

(C) Transfers In/Out:	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental funds:		
General Fund	\$ 3,568,613	\$ 4,700,125
Title I	-	48,092
16th Section Interest Fund	945,342	500,547
16th Section Principal Fund	-	945,343
Other governmental funds	1,721,201	41,049
	<u>1,721,201</u>	<u>41,049</u>
Total funds	<u>\$ 6,235,156</u>	<u>\$ 6,235,156</u>

The transfers represent operating transfers for school operations and transfers for indirect costs, debt service, and unrestricted Sixteenth Section interest earnings.

(4) CAPITAL ASSETS.

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

	<u>Balance</u> <u>7/1/2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	<u>Balance</u> <u>6/30/2007</u>
Non-depreciable capital assets:					
Land	\$ 2,054,130	\$ -	\$ -	\$ -	\$ 2,054,130
Construction in progress	-	-	-	-	-
Total non-depreciable	<u>2,054,130</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,054,130</u>
Depreciable capital assets					
Buildings	18,715,851	-	-	-	18,715,851
Building improvements	4,914,834	-	-	-	4,914,834
Improvements other than buildings	27,270	-	-	-	27,270
Mobile equipment	322,085	-	-	-	322,085
Furniture and equipment	1,385,613	23,398	(22,821)	-	1,386,190
Total depreciable assets	<u>25,365,653</u>	<u>23,398</u>	<u>(22,821)</u>	<u>-</u>	<u>25,366,230</u>
Less accumulated depreciation for:					
Buildings	7,662,126	257,839	-	-	7,919,965
Building improvements	1,391,978	196,594	-	-	1,588,572
Improvements other than buildings	5,455	1,090	-	-	6,545
Mobile equipment	261,550	8,630	-	-	270,180
Furniture and equipment	1,207,734	72,983	(22,593)	-	1,258,124
Total accumulated depreciation	<u>10,528,843</u>	<u>537,136</u>	<u>(22,593)</u>	<u>-</u>	<u>11,043,386</u>
Total depreciable capital assets, net	<u>14,836,810</u>	<u>(513,738)</u>	<u>(228)</u>	<u>-</u>	<u>14,322,844</u>
Governmental activities capital assets, net	<u>\$ 16,890,940</u>	<u>\$ (513,738)</u>	<u>\$ (228)</u>	<u>\$ -</u>	<u>\$ 16,376,974</u>

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$ 471,432
Support services	43,442
Non-instructional	<u>22,262</u>
Total depreciation expense	<u>\$ 537,136</u>

(5) LONG-TERM LIABILITIES

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

	Balance 7/1/2006	Additions	Reductions	Balance 6/30/2007	Amounts Due Within One Year
A. Limited obligation bonds payable	\$ 6,165,000	\$ -	\$ 360,000	\$ 5,805,000	\$ 390,000
B. Certificates of participation payable	4,460,000	-	280,000	4,180,000	295,000
C. Compensated absences payable	241,108	46,464	-	287,572	20,000
TOTAL	\$ 10,866,108	\$ 46,464	\$ 640,000	\$ 10,272,572	\$ 705,000

A. Limited Obligations Bonds Payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital improvement, Series 1998	4.25%-6.00%	5/27/1998	2/1/2018	\$ 7,500,000	\$ 5,805,000
Total				\$ 7,500,000	\$ 5,805,000

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

Year Ending June 30	Principal	Interest	Total
2008	\$ 390,000	\$ 258,435	\$ 648,435
2009	410,000	234,691	644,691
2010	435,000	212,643	647,643
2011	455,000	192,173	647,173
2012	470,000	170,898	640,898
2013-2017	2,655,000	514,181	3,169,181
2018	990,000	29,006	1,019,006
Total	\$ 5,805,000	\$ 1,612,027	\$ 7,417,027

The state aid capital improvement bonds are secured by an irrevocable pledge of certain revenues the School District receives from the State of Mississippi pursuant to the Mississippi Accountability and Adequate Education Program Act, Sections 37-151-1 through 37-151-7, Miss. Code Ann. (1972). The state aid capital improvement bonds are not included in the computation of the debt limit percentage. This debt will be retired from MAEP debt service fund.

B. Certificates of Participation Payable.

As more fully explained in Note 11, 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
Trust Certificates	4.90%	12/30/1997	12/30/2017	\$ 6,285,000	\$ 4,180,000
				<u>\$ 6,285,000</u>	<u>\$ 4,180,000</u>

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

Year Ending June 30,	Principal	Interest	Total
2008	\$ 295,000	\$ 204,820	\$ 499,820
2009	310,000	190,365	500,365
2010	325,000	175,175	500,175
2011	340,000	159,250	499,250
2012	360,000	142,590	502,590
2013-2017	2,075,000	431,200	2,506,200
2018	475,000	23,275	498,275
Total	<u>\$ 4,180,000</u>	<u>\$ 1,326,675</u>	<u>\$ 5,506,675</u>

This debt will be retired from the 1997 Trustmark Debt Service Fund

C. Compensated Absences Payable.

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

(6) DEFINED BENEFIT PENSION PLAN.

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

Funding Policy - PERS members are required to contribute 7.25% of their annual covered salary, and the School District is required to contribute at an actuarially determined rate. The current rate is 11.30% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The School District's contributions to PERS for the fiscal years ending June 30, 2007, 2006 and 2005 were \$2,281,744, \$2,143,193, and \$1,839,532, respectively, which equaled the required contributions for each year.

(7) SIXTEENTH SECTION LANDS.

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

<u>Year Ending</u> <u>June 30</u>	<u>Amount</u>
2008	\$ 105,412
2009	95,490
2010	57,494
2011	30,581
2012	<u>10,655</u>
Total	<u>\$ 299,632</u>

(8) PRIOR PERIOD ADJUSTMENTS/EXHIBITS

A summary of fund equity adjustments is as follows:

Exhibit B-Statement of Activities

<u>Explanation</u>	<u>Amount</u>
Understated prior year revenues	\$ 610
Total	<u>\$ 610</u>

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

<u>Major Funds</u>	<u>Explanation</u>	<u>Amount</u>
Other Governmental Funds	Understated prior year revenues	\$ 610
Total		<u>\$ 610</u>

(9) RISK MANAGEMENT.

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Except as described below, the School 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 119 school districts 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 BancorpSouth in Jackson. The funds in the trust account are used to pay any claim up to \$400,000. For a claim exceeding \$400,000, MSBAWCT has insurance which will pay the excess up to \$25,000,000. 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. In 2007, the School District was assessed an additional \$21,486, or 5%, of its annual premium by the MSBAWCT.

(10) UNCERTAINTIES.

In cases where a township is occupied by two or more school districts, state law requires that available Sixteenth Section funds shall be divided between the school districts lying wholly or partly within such townships in proportion to the number of children enrolled and residing in each school district. In order to determine what portions of available Sixteenth Section funds are due to or from other school districts, the superintendent of each school district is required to compile lists of such children in compliance with Section 29-3-121, Miss. Code Ann. (1972). No division of Sixteenth Section revenues has been accrued as a receivable or payable, as the case may be. The School District is also unable to calculate the amount of revenue derived from the shared townships because it has been unable to determine the location of the lieu lands. The School District is consulting legal counsel to determine the best way to proceed with resolving this matter.

Of the townships Natchez-Adams School District shares with other school districts, Natchez-Adams School District has control of some of the Sixteenth Section property. A portion of the Sixteenth Section revenues (rents, leases, timber sales, etc.) Natchez-Adams School District received on these sections may be due to other school districts. In addition, on the other townships where another school district controls the Sixteenth Section property, Natchez-Adams School District may be entitled to a portion of the Sixteenth Section revenues the other school district(s) received. Because none of the school districts compiled and filed lists of children as state law requires in either the current year or in preceding years and because the School District is unable to determine the location of lieu lands, neither the amounts of any liabilities owed to other school districts nor the amounts of any receivables from other school districts can be determined.

(11) TRUST CERTIFICATES.

The trust agreements dated January 15, 1996, were executed by and between the School District and Britton and Koontz First National Bank of Natchez, Mississippi, as trustees, and on December 30, 1997, between the School District and Trustmark National Bank of Jackson, Mississippi, as trustees.

The trust agreement with Britton and Koontz First National Bank authorized the issuance of trust certificates in the principal amount of \$1,323,096. Approximately \$1,314,721 was used to provide financing for the construction and renovation of school buildings and related facilities and equipment (the "project"); the remainder of approximately \$8,375 was used to pay the cost of issuance.

The trust agreement with Trustmark National Bank authorized the issuance of trust certificates in the principal amount of \$6,285,000. This amount was used to provide financing for the construction and renovation of school buildings and related facilities and equipment (the "project"); with the remainder to be used to pay the cost of issuance.

Both projects are 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 leases represent capital leases under

which ownership of the projects will transfer to the School District upon complete retirement of each of the trust certificates. The School District is obligated to make lease payments to the trustees in amounts equal to the debt service requirements of each of the trust certificates. The lease rental payments by the School District are used by the trustees to pay the principal and interest payments due on the trust certificates.

It is not anticipated the projects will have sufficient value to satisfy the certificates in the event the School District defaults under the leases; 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 provided in Section 2100 of the *Codification of Governmental Accounting and Financial Reporting Standards* dealing with defining the reporting entity, the trust accounts created by these trust agreements 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 these trust agreements are consolidated as part of the School District's financial statements, thereby eliminating the effects of the lease agreement for financial reporting purposes.

Natchez-Adams School District
 Budgetary Comparison Schedule for the General Fund
 For the Year Ended June 30, 2007

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
REVENUES:					
1000 Local sources	\$ 9,487,615	\$ 9,673,026	\$ 9,653,580	\$ 185,411	\$ (19,446)
3000 State sources	17,538,584	17,698,500	17,669,891	159,916	(28,609)
4000 Federal sources	685,526	498,863	491,756	(186,663)	(7,107)
Total Revenues	27,711,725	27,870,389	27,815,227	158,664	(55,162)
EXPENDITURES:					
1000 Instruction	16,200,182	15,588,502	15,332,185	611,680	256,317
2000 Support services	11,319,402	11,115,976	10,686,075	203,426	429,901
3000 Noninstructional services	5,959	5,541	2,335	418	3,206
6000 Debt service					
Principal	-	-	-	-	-
Interest	17,766	17,766	17,765	-	1
Other	-	-	-	-	-
Total Expenditures	27,543,309	26,727,785	26,038,360	815,524	689,425
Excess (deficiency) of revenues over expenditures	168,416	1,142,604	1,776,867	974,188	634,263
OTHER FINANCING SOURCES (USES)					
Other transfers in	858,174	685,275	64,033	(172,899)	(621,242)
Other transfers out	(1,165,509)	(1,195,548)	(1,195,545)	(30,039)	3
Total other financing sources (uses)	(307,335)	(510,273)	(1,131,512)	(202,938)	(621,239)
Net Change in Fund Balance	(138,919)	632,331	645,355	771,250	13,024
FUND BALANCE/RETAINED EARNINGS					
July 1, 2006	2,866,533	3,558,976	3,428,528	692,443	(130,448)
Prior period adjustments		(130,448)	-	(130,448)	130,448
July 1, 2006, as restated	2,866,533	3,428,528	3,428,528	561,995	-
Increase (decrease) in reserve for inventory	-	13,000	12,843	13,000	(157)
June 30, 2007	\$ 2,727,614	\$ 4,073,859	\$ 4,086,726	\$ 1,346,245	\$ 12,867

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

Natchez-Adams School District
 Budgetary Comparison Schedule for Title I - Low Grant Funds
 For the Year Ended June 30, 2007

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
REVENUES:					
4000 Federal sources	\$ 2,967,446	\$ 3,270,666	\$ 2,317,566	\$ 303,220	\$ (953,100)
Total Revenues	2,967,446	3,270,666	2,317,566	303,220	(953,100)
EXPENDITURES:					
1000 Instruction	1,222,295	2,152,767	1,646,672	(930,472)	506,095
2000 Support services	1,388,236	832,280	497,014	555,956	335,266
3000 Noninstructional services	249,201	218,264	125,788	30,937	92,476
Total Expenditures	2,859,732	3,203,311	2,269,474	(343,579)	933,837
Excess (deficiency) of revenues over expenditures	107,714	67,355	48,092	(40,359)	(19,263)
OTHER FINANCING SOURCES (USES)					
Indirect cost transfer out	(64,430)	(48,565)	(29,302)	(15,865)	(19,263)
Other transfers out	(43,284)	(18,790)	(18,790)	(24,494)	-
Total other financing sources (uses)	(107,714)	(67,355)	(48,092)	(40,359)	(19,263)
Net Change in Fund Balance	-	-	-	(80,718)	(38,526)
FUND BALANCE/RETAINED EARNINGS					
July 1, 2006	-	-	-	-	-
Prior period adjustments July 1, 2006, as restated	-	-	-	-	-
June 30, 2007	\$ -	\$ -	\$ -	\$ (80,718)	\$ (38,526)

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

Natchez-Adams School District
 Budgetary Comparison Schedule for 16th Section Interest Fund
 For the Year Ended June 30, 2007

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
REVENUES:					
5000 Sixteenth Section sources	\$ 235,000	\$ 595,799	\$ 595,798	\$ 360,799	\$ (1)
Total Revenues	235,000	595,799	595,798	360,799	(1)
EXPENDITURES:					
4000 Sixteenth Section	-	-	-	-	-
Total Expenditures	-	-	-	-	-
Excess (deficiency) of revenues over expenditures	235,000	595,799	595,798	360,799	(1)
OTHER FINANCING SOURCES (USES)					
Other transfers in	740,000	945,343	945,342	205,343	(1)
Other transfers out	(1,247,114)	(501,040)	(500,547)	746,074	493
Total other financing sources (uses)	(507,114)	444,303	444,795	951,417	492
Net Change in Fund Balance	(272,114)	1,040,102	1,040,593	1,312,216	491
FUND BALANCE/RETAINED EARNINGS					
July 1, 2006	4,366,436	4,431,556	4,431,556	65,120	-
Prior period adjustments	-	-	-	-	-
July 1, 2006, as restated	4,366,436	4,431,556	4,431,556	65,120	-
June 30, 2007	\$ 4,094,322	\$ 5,471,658	\$ 5,472,149	\$ 1,377,336	\$ 491

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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(2) Budget Amendments and Revisions.

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

(3) Prior Period Adjustments.

A summary of significant fund equity adjustments can be found in Note 8 of the Notes to Financial Statements.

Natchez-Adams 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	\$ 27,446,913	\$ 20,935,613	\$ 1,439,925	\$ 2,041,012	\$ 3,030,363
Other	9,549,081	3,204,437	290,404	107,546	5,946,694
Total	\$ 36,995,994	\$ 24,140,050	\$ 1,730,329	\$ 2,148,558	\$ 8,977,057
 Total number of students	 4,163				
 Cost per student	 \$ 8,887	 \$ 5,799	 \$ 416	 \$ 516	 \$ 2,156

Notes to the Schedule.

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

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

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

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

Total Number of Students - the ADA report submission for month 9, which is the final submission for the school year.

Natchez-Adams School District
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2007

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>		
Passed through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	\$ 139,978
Child Nutrition Cluster:		
School breakfast program	10.553	472,675
National school lunch program	10.555	1,447,256
Summer food service program for children	10.559	47,200
Total child nutrition cluster		<u>1,967,131</u>
Total passed-through Mississippi Department of Education		<u>2,107,109</u>
Passed through State of Mississippi:		
Fresh fruit and vegetable program	10.582	59,176
Schools and roads - grants to states	10.665	90,314
Total passed through State of Mississippi		<u>149,490</u>
Total U.S. Department of Agriculture		<u>2,256,599</u>
<u>U.S. Department of Defense</u>		
Direct program(s):		
Reserve Officers' Training Corps	12.xxx	54,555
Total		<u>54,555</u>
Total U.S. Department of Defense		<u>54,555</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.xxx	239,751
Total		<u>239,751</u>
Total Federal Communications Commission		<u>239,751</u>
<u>U.S. Department of Education</u>		
Direct Programs:		
Funds for the improvement of Education-Carol M. White PE Program	84.215F	115,747
Impact Aid	84.041	609
Total		<u>116,356</u>
Passed through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	2,391,077
Title I-program for neglected and delinquent children	84.013	18,790
Vocational Education - basic grants to states	84.048	102,515
Safe and drug-free schools and communities - state grants	84.186	50,243

**Natchez-Adams School District
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007**

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Federal Expenditures</u>
Education for homeless children and youth	84.196	8,160
Eisenhower professional development state grants	84.281	434,347
Innovative education program strategies	84.298	20,774
 <u>U.S. Department of Education (Continued):</u>		
Education technology state grants	84.318	\$ 51,111
Teacher quality enhancement grants	84.336	317
Reading first state grants	84.357	897,143
Rural education	84.358	118,592
Improving teacher quality-state grants	84.367	37,386
State assessments grants	84.369	25,324
Hurricane education recovery	84.938	45,505
Total		<u>4,201,284</u>
 Special education cluster:		
Special education-grants to states	84.027	1,107,802
Special Education-preschool grants	84.173	41,498
Total		<u>1,149,300</u>
Total passed-through Mississippi Department of Education		<u>5,350,584</u>
Total U.S. Department of Education		<u>5,466,940</u>
Total for all Federal Awards		<u>\$ 8,017,845</u>

NOTES TO SCHEDULE

1. This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the general purpose financial statements.
2. The expenditure amounts include transfers out.
3. The pass-through entities did not assign identifying numbers to the School District.

Superintendent and Board of Directors
Natchez-Adams School District

522 Main Street
Natchez, MS 39120
♦
P. O. Box 1103
Natchez, MS 39121-1103
♦
601.446.6681
Fax 601.445.6630
www.str-cpa.com

**Independent Auditors' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of the Financial Statements Performed
in Accordance with *Government Auditing Standards***

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Natchez-Adams School District as of and for the year ended June 30, 2007, which collectively comprise the Natchez-Adams School District's basic financial statements and have issued our report thereon dated December 6, 2007. 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 basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects School District'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 School District's financial statements that is more than inconsequential will not be prevented or detected by the School District's internal control.

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the School Board, management, 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.

December 6, 2007
Natchez, Mississippi

Superintendent and School Board
Natchez-Adams School District

522 Main Street
Natchez, MS 39120
•
P. O. Box 1103
Natchez, MS 39121-1103
•
601.446.6681
Fax 601.445.6630
www.str-cpa.com

**Independent Auditors' Report on Compliance With Requirements
Applicable to Each Major Federal Program and Internal
Control Over Compliance in Accordance With OMB Circular A-133**

Compliance

We have audited the compliance of the Natchez-Adams 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 District's major federal programs are identified in the "Summary of Auditors' Results" Section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the 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 Nonprofit 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 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, the School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

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

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

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

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

This report is intended solely for the information and use of the School Board, management, 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.

December 6, 2007
Natchez, Mississippi

NATCHEZ-ADAMS SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Section 1: Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the Natchez-Adams School District.
2. No significant deficiencies are reported in the "Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*."
3. No instances of noncompliance material to financial statements of the Natchez-Adams School District, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies are reported in the "Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
5. The auditors' report on compliance for the major federal award programs for the Natchez-Adams School District, expresses an unqualified opinion on all major federal programs.
6. There were no audit findings that are required to be reported under Section __.510(a) of OMB Circular A-133.
7. The programs tested as major programs included: Title I, CFDA 84.010 and The Schools and Libraries Program of the Universal Service Fund, CFDA 32.xxx.
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. The Natchez-Adams School District, qualified as a low-risk auditee.
10. Prior fiscal year audit findings and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section __.315(b) of OMB Circular A-133? No

Section 2: Findings Relating to the Financial Statements - None

Section 3: Findings and Questioned Costs for Federal Awards - None

522 Main Street
Natchez, MS 39120

♦
P. O. Box 1103
Natchez, MS 39121-1103

♦
601.446.6681
Fax 601.445.6630
www.str-cpa.com

Superintendent and School Board
Natchez-Adams School District

Independent Auditors' Report on Compliance With State Laws and Regulations

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Natchez-Adams School District, as of and for the year ended June 30, 2007, and have issued our report dated December 6, 2007. 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)(a), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure that the school district is complying with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds". As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$31,686 of classroom supply funds carried over from previous years.

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

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

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

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

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

December 6, 2007
Natchez, Mississippi