



The following document was not prepared by the Office of the State Auditor, but was prepared by and submitted to the Office of the State Auditor by a private CPA firm. The document was placed on this web page as it was submitted. The Office of the State Auditor assumes no responsibility for its content or for any errors located in the document. Any questions of accuracy or authenticity concerning this document should be submitted to the CPA firm that prepared the document. The name and address of the CPA firm appears in the document.

PEARL RIVER COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS

JUNE 30, 2007

PEARL RIVER COUNTY SCHOOL DISTRICT
CARRIERE, MISSISSIPPI

BOARD OF TRUSTEES

Margie Creel, Chairman
Sherwin Taylor
Byron Stockstill
Michelle Boyd
Jeff Jones

SUPERINTENDENT

Dennis Penton

Business Manager

Megan St. Clair

PEARL RIVER COUNTY SCHOOL DISTRICT

Table of Contents

| | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|
| FINANCIAL AUDIT REPORT | |
| Independent Auditor's Report on the Basic Financial Statements and Supplementary Information | 4 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS | 6 |
| FINANCIAL STATEMENTS | |
| EXHIBIT A: Statement of Net Assets | 16 |
| EXHIBIT B: Statement of Activities | 17 |
| EXHIBIT C: Balance Sheet – Governmental Funds | 18 |
| EXHIBIT C-1: Reconciliation of Governmental Funds to the Statement of Net Assets | 19 |
| EXHIBIT D: Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds | 20 |
| EXHIBIT D-1: Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities | 21 |
| EXHIBIT E: Statement of Net Assets – Fiduciary Funds | 22 |
| EXHIBIT F: Statement of Activities – Fiduciary Funds | 23 |
| NOTES TO THE FINANCIAL STATEMENTS | 24 |
| REQUIRED SUPPLEMENTARY INFORMATION | |
| Budgetary Comparison Schedule for the Schedule 1A: General Fund | 41 |
| Schedule 1B: Hurricane Katrina Repair Fund | 42 |
| Notes to the Required Supplementary Information | 43 |
| SUPPLEMENTAL INFORMATION | |
| Schedule of Expenditures of Federal Awards | 45 |
| Schedule of Instructional Expenses | 46 |
| REPORTS ON COMPLIANCE AND INTERNAL CONTROL | |
| 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 <u>Government Auditing Standards</u> | 47 |
| 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 | 50 |
| Independent Auditors' Report on Compliance with State Laws and Regulations | 53 |
| Schedule of Findings and Questioned Costs | 57 |
| AUDITEE'S REPORTS | |
| Auditee's Corrective Action Plan | 61 |
| Auditee's Summary Schedule of Prior Audit Findings | 65 |

American Institute of
Certified Public Accountants

King CPA, PLLC

206 Hwy 42 P.O. Box 1182

Petal, MS 39465

Telephone 601-544-9795....Fax 601-544-9793

Mississippi Society of
Certified Public Accountants

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

August 29, 2008

Superintendent and School Board
Pearl River County School District

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Pearl River County School District as of June 30, 2007, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 29, 2008 on our consideration of the Pearl River County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Independent Auditor's Report

Page 2

The Management's Discussion and Analysis on pages 7 through 14 and the Budgetary Comparison Schedules and corresponding notes on page 41 through 43 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

King CPA, PLLC

KING CPA, PLLC
Petal, Mississippi
August 29, 2008

PEARL RIVER COUNTY SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION
AND ANALYSIS
(MD&A)**

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

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

FINANCIAL HIGHLIGHTS

- Total net assets, including the effect of prior period adjustments, increased \$1,576,388 which represents a 10% increase from fiscal year 2006.
- General revenues account for \$18,041,029 in revenue, or 79% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$4,764,627 or 21% of total revenues.
- The District had \$21,237,907 in expenses; only \$4,764,627 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$18,041,029 were adequate to provide for these programs.
- Among major funds, the General Fund had \$17,105,528 in revenues and \$15,971,688 in expenditures. After net other financing uses of \$(556,465), the General Fund's fund balance increased \$577,375 over the prior year. This increase is due primarily to insurance loss recoveries.
- Capital assets, net of accumulated depreciation, increased by \$51,408.
- Long-term debt decreased by \$676,035.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 19 and 21, respectively, of this report.

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

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

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

Notes to the financial statements. The notes provide additional information that is essential to have 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 25 - 39 of this report.

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major special revenue fund. This required supplementary information can be found on pages 41 - 43 of this report.

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

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 45 and 46, respectively, of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$17,190,994 as of June 30, 2007.

Of the District's net assets, \$6,035,098 or 35% reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment and furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

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

The following table presents a summary of the District's net assets as of June 30, 2007 and 2006, respectively.

| | <u>Net Assets</u> | | <u>Percentage</u> |
|----------------------------------------------------|-----------------------------|--------------------------|-------------------|
| | <u>June 30, 2007</u> | <u>June 30, 2006</u> | <u>Change</u> |
| Current assets | \$ 12,988,287 | \$ 12,024,832 | 8.01% |
| Capital assets, net | 14,358,098 | 14,306,690 | 0.36% |
| Total assets | <u>27,346,385</u> | <u>26,331,522</u> | 3.85% |
| Current liabilities | 1,764,683 | 1,649,833 | 6.96% |
| Other liabilities | 4,077 | 4,417 | (7.70)% |
| Long-term debt outstanding | 8,386,631 | 9,062,666 | (7.46)% |
| Total liabilities | <u>10,155,391</u> | <u>10,716,916</u> | (5.24)% |
| Net assets: | | | |
| Invested in capital assets, net of related debt | 6,035,098 | 5,313,690 | 13.58% |
| Restricted | 2,725,346 | 2,457,839 | 10.88% |
| Unrestricted | 8,430,550 | 7,843,077 | 7.49% |
| Total net assets | <u>\$ 17,190,994</u> | <u>15,614,606</u> | 10.10% |

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

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

- Current assets increased from the previous fiscal year due primarily to an increase in cash and cash equivalents.
- Net assets invested in capital assets, net of related debt, increased from the previous fiscal year due primarily to the purchase of capital assets and the decrease in long-term debt related to those capital assets.
- Unrestricted net assets increased from the previous fiscal year due primarily to the increase in the General Fund as a result of insurance loss recoveries relating to Hurricane Katrina.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2007 were \$22,805,656. The total cost of all programs and services was \$21,237,907. The following table presents a summary of the changes in net assets for the fiscal years ending June 30, 2007 and 2006, respectively.

| | <u>Change in Net Assets</u> | | <u>Percentage Change</u> |
|--------------------------------------------------------|-----------------------------|-----------------------------|------------------------------|
| | <u>June 30, 2007</u> | <u>June 30, 2006</u> | |
| Revenues: | | | |
| Program revenues: | | | |
| Charges for services | \$ 1,474,802 | \$ 998,509 | 47.70% |
| Operating grants and contributions | 3,289,825 | 6,280,777 | (47.62)% |
| General revenues: | | | |
| Property taxes | 4,267,988 | 4,506,223 | (5.29)% |
| Grants and contributions not restricted | 12,922,079 | 12,145,484 | 6.39% |
| Other | <u>850,962</u> | <u>1,049,374</u> | (18.91)% |
| Total revenues | <u>22,805,656</u> | <u>24,980,367</u> | (8.71)% |
| Expenses: | | | |
| Instruction | 12,847,134 | 11,857,323 | 8.35% |
| Support services | 6,754,102 | 6,014,746 | 12.29% |
| Non-instructional | 1,282,574 | 1,127,128 | 13.79% |
| Sixteenth section | 15,308 | 14,593 | 4.90% |
| Interest and other expense on long-term liabilities | <u>338,789</u> | <u>353,095</u> | (4.05)% |
| Total expenses | <u>21,237,907</u> | <u>19,366,885</u> | 9.66% |
| Increase (Decrease) in net assets | 1,567,749 | 5,613,482 | (72.07)% |
| Net Assets, July 1 | 15,614,606 | 9,710,895 | 60.79% |
| Prior Period Adjustments | <u>8,639</u> | <u>290,229</u> | (97.02)% |
| Net Assets, June 30 | <u>\$17,190,994</u> | <u>\$ 15,614,606</u> | 10.10% |

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

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

- Program revenues: operating grants and contributions decreased from the previous fiscal year due primarily to a decrease in federal funding, specifically the Hurricane Education Recovery grants and disaster assistance grants.
- General revenues: other decreased from the previous fiscal year due primarily to a decrease in insurance loss recoveries.
- Instruction and support services expenses increased from the previous fiscal year due primarily to an increase in salaries and benefits.

Governmental activities. The following table presents the cost of five major 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 District's taxpayers by each of these functions.

| | 2007 | | 2006 | |
|---------------------------------------------------------|---------------------|--------------------------|---------------------|--------------------------|
| | Total Expenses | Net (Expense) Revenue | Total Expenses | Net (Expense) Revenue |
| Instruction | \$12,847,134 | \$ (10,014,707) | \$11,857,323 | \$(6,760,796) |
| Support services | 6,754,102 | (6,044,446) | 6,014,746 | (4,968,430) |
| Non-instructional | 1,282,574 | (60,030) | 1,127,128 | 8,960 |
| Sixteenth section | 15,308 | (15,308) | 14,593 | (14,238) |
| Interest and other expenses on long-term liabilities | 338,789 | (338,789) | 353,095 | (353,095) |
| Total expenses | \$21,237,907 | \$ (16,473,280) | \$19,366,885 | \$(12,087,599) |

- Net cost of governmental activities in the amount of \$16,473,280, was financed by general revenue, which is made up of primarily property taxes \$4,267,988 and state revenue \$12,775,926.
- Investment earnings accounted for \$335,670 of funding.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

Governmental funds. The focus of the District's governmental funds is to provide information on current inflows, outflows and balances of spendable resources. Such information is useful in

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

assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$11,075,444, an increase of \$901,500 due primarily to additional funding from insurance loss recoveries. \$5,963,764 or 54% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$5,111,680 or 46% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$577,375. The fund balance of Other Governmental Funds showed an increase of \$307,428 due primarily to completed construction projects.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget. The budget revisions made during the fiscal year were considered routine and were not significant when compared to overall revenues and expenditures.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2007, the District's total capital assets were \$19,266,369, including land, school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$617,182 from the previous year. Total accumulated depreciation as of June 30, 2007 was \$4,908,271 and total depreciation expense for the year was \$560,924, resulting in total net assets of \$14,358,098.

| | <u>Capital Assets, Net of Depreciation</u> | | Percentage |
|-----------------------------------|--------------------------------------------|-----------------------------|---------------|
| | <u>2007</u> | <u>2006</u> | <u>Change</u> |
| Land | \$ 359,361 | \$ 359,361 | - |
| Construction in progress | 229,437 | - | |
| Buildings | 10,429,259 | 10,661,303 | (2.18)% |
| Building improvements | 1,746,596 | 1,833,569 | (4.74)% |
| Improvements other than buildings | 572,936 | 529,572 | 8.19% |
| Mobile equipment | 858,901 | 773,128 | 11.09% |
| Furniture and equipment | 161,608 | 149,757 | 7.91% |
| Total | <u>\$14,358,098</u> | <u>\$ 14,306,690</u> | .36% |

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

Debt Administration. At June 30, 2007, the District had \$8,386,631 in general obligation bonds and other long-term debt outstanding, of which \$694,363 is due within one year.

| | <u>Outstanding Debt</u> | | Percentage |
|----------------------------------|----------------------------|----------------------------|----------------|
| | <u>2007</u> | <u>2006</u> | <u>Change</u> |
| General obligation bonds payable | \$ 3,610,000 | \$ 3,895,000 | (7.32)% |
| Limited obligation bonds payable | 2,345,000 | 2,515,000 | (6.76)% |
| Three mill notes payable | 1,368,000 | 1,583,000 | (13.58)% |
| Qualified zone academy bonds | 1,000,000 | 1,000,000 | |
| Compensated absences payable | <u>63,631</u> | <u>69,666</u> | (8.66)% |
| Total | <u>\$ 8,386,631</u> | <u>\$ 9,062,666</u> | (7.46)% |

Additional information of the District's long-term debt can be found in Note 5 on page 35 of this report.

CURRENT ISSUES

The Pearl River School District is financially stable. The District is proud of its community support of the public schools.

The District has committed itself to financial excellence for many years. The millage did not change significantly from the previous fiscal year. In addition, the District system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

Latest enrollment figures indicate that student enrollment in the District has increased. The budget for the next fiscal year has taken into account this increase in both funding and staffing needs.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Pearl River School District, 7441 Highway 11, Carriere, MS 39426.

PEARL RIVER COUNTY SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS

PEARL RIVER COUNTY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2007

Exhibit A

| | Governmental <u>Activities</u> |
|--------------------------------------------------|-----------------------------------|
| Assets | |
| Cash and cash equivalents | \$ 9,946,142 |
| Investments | 200,000 |
| Due from other governments | 996,257 |
| Accrued interest receivable | 9,141 |
| Other receivables, net | 481,638 |
| Inventories & prepaid items | 93,556 |
| Deferred charges | 247,754 |
| Restricted assets | 1,013,799 |
| Capital assets, not being depreciated: | |
| Land | 359,361 |
| Construction in progress | 229,437 |
| Capital assets, net of accumulated depreciation: | |
| Buildings | 10,429,259 |
| Building improvements | 1,746,596 |
| Improvements other than buildings | 572,936 |
| Mobile equipment | 858,901 |
| Furniture and equipment | 161,608 |
| Total Assets | <u>27,346,385</u> |
| Liabilities | |
| Accounts payable and accrued liabilities | 1,663,089 |
| Deferred revenue | 2,000 |
| Interest payable on long-term liabilities | 99,594 |
| Long-term liabilities, due within one year | |
| Capital related liabilities | 688,000 |
| Non-capital related liabilities | 6,363 |
| Long-term liabilities, due beyond one year | |
| Capital related liabilities | 7,635,000 |
| Non-capital related liabilities | 57,268 |
| Other liabilities | |
| Deferred revenue - bond premium | 4,077 |
| Total Liabilities | <u>10,155,391</u> |
| Net Assets | |
| Invested in capital assets, net of related debt | 6,035,098 |
| Restricted net assets: | |
| Expendable: | |
| School - based activities | 783,646 |
| Debt service | 1,093,956 |
| Capital improvements | 408,849 |
| Forestry improvements | 69,952 |
| Unemployment benefits | 35,890 |
| Non-expendable: | |
| Sixteenth section | 333,053 |
| Unrestricted | 8,430,550 |
| Total Net Assets | <u>\$ 17,190,994</u> |

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

PEARL RIVER COUNTY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2007

Exhibit B

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets Governmental Activities |
|---------------------------------------------------------|---------------------|-------------------------|------------------------------------------|----------------------------------------|-------------------------------------------------------------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Governmental Activities: | | | | | |
| Instruction | \$12,847,134 | \$ 989,084 | \$1,843,343 | \$ - | \$ (10,014,707) |
| Support services | 6,754,102 | 25,400 | 684,256 | - | (6,044,446) |
| Non-instructional | 1,282,574 | 460,318 | 762,226 | - | (60,030) |
| Sixteenth section | 15,308 | - | - | - | (15,308) |
| Interest and other expenses on long-term liabilities | 338,789 | - | - | - | (338,789) |
| Total Governmental Activities | \$21,237,907 | \$ 1,474,802 | \$3,289,825 | \$ - | (16,473,280) |
| General Revenues: | | | | | |
| Taxes: | | | | | |
| | | | | | 3,613,146 |
| | | | | | 654,842 |
| Unrestricted grants and contributions: | | | | | |
| | | | | | 12,775,926 |
| | | | | | 146,153 |
| | | | | | 335,670 |
| | | | | | 55,145 |
| | | | | | 460,147 |
| | | | | | <u>18,041,029</u> |
| | | | | | <u>1,567,749</u> |
| | | | | | 15,614,606 |
| | | | | | <u>8,639</u> |
| | | | | | <u>15,623,245</u> |
| | | | | | <u>\$ 17,190,994</u> |

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

PEARL RIVER COUNTY SCHOOL DISTRICT
 Balance Sheet - Governmental Funds
 June 30, 2007

Exhibit C

| | <u>Major Funds</u> | | | Total Governmental Funds |
|------------------------------------------|---------------------|---------------------------------|--------------------------------|--------------------------------|
| | General Fund | Hurricane Katrina Repairs | Other Governmental Funds | |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 8,388,907 | \$ 240,620 | \$ 1,649,668 | \$ 10,279,195 |
| Cash with fiscal agents | - | - | 145,876 | 145,876 |
| Investments | - | - | 734,870 | 734,870 |
| Due from other governments | 533,787 | - | 462,470 | 996,257 |
| Accrued interest receivable | - | - | 9,141 | 9,141 |
| Due from other funds | 543,460 | - | 94,654 | 638,114 |
| Advance to other funds | 220,507 | - | - | 220,507 |
| Inventories and prepaid items | 28,652 | - | 64,904 | 93,556 |
| Total Assets | <u>9,715,313</u> | <u>240,620</u> | <u>3,161,583</u> | <u>13,117,516</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts payable and accrued liabilities | 1,122,420 | 240,620 | 260,417 | 1,623,457 |
| Due to other funds | 96,712 | - | 99,396 | 196,108 |
| Advances from other funds | - | - | 220,507 | 220,507 |
| Deferred revenue | 2,000 | - | - | 2,000 |
| Total Liabilities | <u>1,221,132</u> | <u>240,620</u> | <u>580,320</u> | <u>2,042,072</u> |
| Fund Balances: | | | | |
| Reserved for: | | | | |
| Advances | 220,507 | - | - | 220,507 |
| Inventory | - | - | 64,904 | 64,904 |
| Prepaid items | 28,652 | - | - | 28,652 |
| Capital projects | - | - | 408,849 | 408,849 |
| Debt service | - | - | 949,873 | 949,873 |
| Unemployment benefits | - | - | 35,890 | 35,890 |
| Forestry improvements purposes | - | - | 69,952 | 69,952 |
| Permanent fund purposes | - | - | 333,053 | 333,053 |
| Unreserved: | | | | |
| Designated for: | | | | |
| Capital Improvements | 3,000,000 | - | - | 3,000,000 |
| Undesignated, reported in: | | | | |
| General fund | 5,245,022 | - | - | 5,245,022 |
| Special Revenue funds | - | - | 718,742 | 718,742 |
| Total Fund Balances | <u>8,494,181</u> | <u>-</u> | <u>2,581,263</u> | <u>11,075,444</u> |
| Total Liabilities and Fund Balances | <u>\$ 9,715,313</u> | <u>\$ 240,620</u> | <u>\$ 3,161,583</u> | <u>\$ 13,117,516</u> |

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

PEARL RIVER COUNTY 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 | \$ 11,075,444 |
| 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 \$4,908,271. | 14,358,098 |
| 2. Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. | 247,754 |
| 3. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. | (8,386,631) |
| 4. Remaining amortization on refunding bond premium is not due and payable in the current period and, therefore, is not reported in the funds. | (4,077) |
| 5. Governmental funds recognize interest on long-term debt when it becomes due, however the Statement of Net Assets recognizes interest as it accrues. | <u>(99,594)</u> |
| Total Net Assets - Governmental Activities | <u>\$ 17,190,994</u> |

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

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

Exhibit D

| | Major Funds | | | Total Governmental Funds |
|--------------------------------------------------------------|---------------------|---------------------------------|--------------------------------|--------------------------------|
| | General Fund | Hurricane Katrina Repairs | Other Governmental Funds | |
| Revenues: | | | | |
| Local sources | \$ 4,422,049 | \$ 1,970 | \$ 1,635,903 | \$ 6,059,922 |
| Intermediate sources | - | - | - | - |
| State sources | 12,571,235 | - | 561,070 | 13,132,305 |
| Federal sources | 112,244 | - | 2,967,355 | 3,079,599 |
| Sixteenth section sources | - | - | 73,683 | 73,683 |
| Total Revenues | 17,105,528 | 1,970 | 5,238,011 | 22,345,509 |
| Expenditures: | | | | |
| Instruction | 10,333,175 | 3,732 | 2,257,061 | 12,593,968 |
| Support services | 5,366,367 | 585,275 | 867,394 | 6,819,036 |
| Noninstructional services | 42,709 | - | 1,213,453 | 1,256,162 |
| Sixteenth section | - | - | 15,308 | 15,308 |
| Facilities acquisition and construction | 229,437 | - | 48,928 | 278,365 |
| Debt service: | | | | |
| Principal | - | - | 670,000 | 670,000 |
| Interest | - | - | 283,734 | 283,734 |
| Other | - | - | 3,150 | 3,150 |
| Total Expenditures | 15,971,688 | 589,007 | 5,359,028 | 21,919,723 |
| Excess (Deficiency) of Revenues Over Expenditures | 1,133,840 | (587,037) | (121,017) | 425,786 |
| Other Financing Sources (Uses): | | | | |
| Insurance loss recoveries | 460,147 | - | - | 460,147 |
| Operating transfers in | 9,258 | 587,037 | 452,300 | 1,048,595 |
| Payments held by escrow agents | - | - | 63,575 | 63,575 |
| Operating transfers out | (1,025,870) | - | (22,725) | (1,048,595) |
| Payment to QZAB debt escrow agent | - | - | (62,925) | (62,925) |
| Miscellaneous other financing uses | - | - | (1,780) | (1,780) |
| Total Other Financing Sources (Uses) | (556,465) | 587,037 | 428,445 | 459,017 |
| Net Change in Fund Balances | 577,375 | - | 307,428 | 884,803 |
| Fund Balances: | | | | |
| July 1, 2006 | 7,915,617 | - | 2,258,327 | 10,173,944 |
| Prior period adjustments | - | - | - | - |
| July 1, 2006, as restated | 7,915,617 | - | 2,258,327 | 10,173,944 |
| Increase in reserve for inventory | - | - | 16,697 | 16,697 |
| Residual equity transfer in (out) | 1,189 | - | (1,189) | - |
| June 30, 2007 | \$ 8,494,181 | \$ - | \$ 2,581,263 | \$ 11,075,444 |

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

PEARL RIVER COUNTY 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 | \$ 884,803 |
| 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 asset purchases amounted to \$603,693 and the depreciation expense amounted to \$560,924. | 42,769 |
| 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. | 670,000 |
| 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 dues. | (31,150) |
| 4. In the Statement of Activities, revenue is recorded when earned, whereas in governmental funds, revenue is recorded when measurable and available to pay current liabilities at the end of the period. Revenue that is measurable but not available is deferred in governmental funds. | 340 |
| 5. Increase in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are decreased in the Statement of Activities. | 16,697 |
| 6. Issuance cost of long-term liabilities is reported as expenditures in the governmental funds, but is deferred and amortized in the Statement of Activities. | (21,745) |
| 7. 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>6,035</u> |
| Change in Net Assets of Governmental Activities | <u>\$ 1,567,749</u> |

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

PEARL RIVER COUNTY SCHOOL DISTRICT
Statement of Fiduciary Net Assets
June 30, 2007

Exhibit E

| | Private-Purpose <u>Trust Funds</u> | Agency <u>Funds</u> |
|------------------------------------------|---------------------------------------|------------------------|
| Assets | | |
| Cash and cash equivalents | \$ 4,150 | \$ 483,551 |
| Other receivables | - | 443 |
| Due from other funds | - | <u>39,632</u> |
| Total Assets | <u>4,150</u> | <u>523,626</u> |
| Liabilities | | |
| Accounts payable and accrued liabilities | - | 19,172 |
| Due to other funds | - | 481,638 |
| Due to student clubs | - | <u>22,816</u> |
| Total Liabilities | <u>-</u> | <u>\$ 523,626</u> |
| Net Assets | | |
| Held in trust | <u>4,150</u> | |
| Total Net Assets | <u>\$ 4,150</u> | |

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

PEARL RIVER COUNTY SCHOOL DISTRICT
Statement of Changes in Fiduciary Assets
June 30, 2007

Exhibit F

| | <u>Private-Purpose Trust Funds</u> |
|--------------------------------------------------|----------------------------------------|
| Additions | |
| Interest on investments | \$ 120 |
| Contributions and donations from private sources | <u>3,800</u> |
| Total Additions | <u>3,920</u> |
| Deductions | |
| Scholarships awarded | <u>2,570</u> |
| Total Deductions | <u>2,570</u> |
| Change in Net Assets | <u>1,350</u> |
| Net Assets | |
| July 1, 2006 | <u>2,800</u> |
| June 30, 2007 | <u>\$ 4,150</u> |

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

PEARL RIVER COUNTY SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

**PEARL RIVER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

(1) Summary of Significant Accounting Policies.

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

A. Financial Reporting Entity.

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

B. Basis of Presentation.

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

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

**PEARL RIVER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

C. Measurement Focus and Basis of Accounting.

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

In the fund financial statements, governmental funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Property taxes, state appropriations and federal awards associated with the current fiscal period are all considered to be susceptible to accrual and 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.

Hurricane Katrina Repairs Fund – This is a special revenue fund that is used to insure proper disbursement of and accounting for expenditures related to Hurricane Katrina Repairs.

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 district's programs.

**PEARL RIVER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

FIDUCIARY FUNDS

Private-purpose Trust Funds – Private-purpose trust funds are used to report all trust arrangements, other than those properly reported elsewhere, under which the principal and income benefit individuals, private organizations or other governments.

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

D. Account Classifications.

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

E. Encumbrances.

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

F. Cash and Cash Equivalents.

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

Cash and cash equivalents consists of amounts on deposit in demand accounts and certificates of deposit with maturities of three months or less. Cash and cash equivalents are valued at cost.

G. Investments.

The school district can invest its excess funds, as permitted by Section 29-3-113, Miss. Code Ann. (1972), in interest-bearing deposits or other obligations of the types described in Section 27-105-33, Miss. Code Ann. (1972), or in any other type investment in which any other agency, instrumentality or subdivision of the State of Mississippi may invest, except that 100% of said funds are authorized to be so invested.

For accounting purposes, certificates of deposit are classified as investments if they have a maturity greater than three months when acquired.

Investments are reported at fair value.

H. Inventories and Prepaid Items.

Donated commodities are received from the USDA and are valued at USDA cost. Other inventories are valued at cost (calculated on the first-in, first-out basis).

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

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

**PEARL RIVER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

I. Capital Assets.

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

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

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

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

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

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

J. Long-term liabilities.

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

**PEARL RIVER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

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

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

L. Equity Classifications.

Government-wide Financial Statements:

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

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 borrowing that are attributable to the acquisition, construction or improvement of those assets.
2. Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statements:

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

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

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

Reserved for 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.

**PEARL RIVER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

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

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

Reserved for forestry improvements - An account that represents the fund balance that legally restricted for improving sixteenth section forest lands.

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

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

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

M. Property Taxes.

Ad valorem property taxes are levied by the governing 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 district pays for unused leave for employees as required by Section 37-7-307(5), Miss. Code Ann. (1972).

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

**PEARL RIVER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

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

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

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

Investments. Section 29-3-113 and Section 37-59-43 Miss Code Ann. (1972), authorize the school board to invest surplus funds in the types of investments authorized by Section 27-105-33(d) and (e), Miss Code Ann. (1972). This section permits the following types of investments: (a) certificates of deposits and interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, the principal and interest of which are fully guaranteed by the government or enumerated agency of the United States; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or interest in, and open-end or closed-end any management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration. Investment income on bond funds (Capital Projects Funds), 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 as cash and cash equivalents was \$10,279,195 and \$487,701, respectively and the deposits reported as investments in the governmental funds was \$200,000. The carrying amount of deposits reported in the government-wide financial statements was: cash and cash equivalents of \$9,946,142, investments of \$200,000 and a portion of restricted assets in the amount of \$333,053. The restricted assets in the amount of \$1,013,799 includes \$145,876 reported as cash with fiscal agents in the QZAB Bond fund and MAEP debt retirement fund, \$534,870 reported as investments in QZAB Bond fund and \$333,053 reported as cash and cash equivalent in the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$11,743,975.

Custodial Credit Risk – Deposits. Custodial credit risk is defined as the risk that, in the event of failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2007, none of the district's bank balance of \$11,743,975 was exposed to custodial credit risk.

**PEARL RIVER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

Cash with Fiscal Agents.

The carrying amount of the school district's cash with fiscal agents held by financial institutions was \$145,876. The cash with fiscal agents is reported in the QZAB Bond Fund and the MAEP Debt Retirement Fund and is legally restricted and may not be used for purposes that support the district's programs. Therefore, the carrying amount of cash with fiscal agents for these funds is included as a portion of Restricted Assets in the government-wide financial statements.

Investments.

As of June 30, 2007, the district had the following investments.

| <u>Investment Type</u> | <u>Maturities (in years)</u> | <u>Fair Value</u> | <u>Rating</u> |
|--------------------------------|------------------------------|-------------------|---------------|
| Certificates of deposit | 1 year | \$ 200,000 | n/a |
| Federal Home Loan Mtg Corp DTD | less than 1 | <u>534,870</u> | AAA |
| Total Investments | | <u>\$ 734,870</u> | |

Investments includes \$200,000 reported in Sixteenth Section Interest fund and \$534,870 reported in the QZAB Bond Fund. The investments in the QZAB Bond Fund are legally restricted and may not be used for purposes that support the district's programs. Therefore, the carrying amount of investments in this fund in the amount of \$534,870 is included as a portion of Restricted Assets in the government-wide financial statements.

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

Credit Risk. State law limits investments to those prescribed in Sections 27-105-33(d) and 27-105-33(e), Miss. Code Ann. (1972). The district does not have a formal investment policy that would further limit its investment choices or one that addresses credit risk.

Custodial Credit Risk – Investments. Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk. As of June 30, 2007, the district did not have any investments to which this would apply.

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

**PEARL RIVER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

(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 | \$ 543,460 | \$ 96,712 |
| Other Governmental funds | 94,654 | 99,396 |
| Fiduciary Funds | <u>39,632</u> | <u>481,638</u> |
| Total | <u>\$ 677,746</u> | <u>\$ 677,746</u> |

The primary purpose of the interfund loans was to cover federal funds not received prior to year-end and to report excess funds in payroll clearing due back to the governmental funds.

B. Advances To/From Other Funds

| | <u>Advances To</u> | <u>Advances From</u> |
|--------------------------|------------------------|--------------------------|
| Governmental Funds: | | |
| General fund | \$ 220,507 | \$ -- |
| Other governmental funds | <u>--</u> | <u>220,507</u> |
| Total | <u>\$ 220,507</u> | <u>\$ 220,507</u> |

The advances shown represent a transfer from the general fund to the debt service fund to cover debt payments until the debt service fund collects revenues sufficient to pay the debt.

C. Transfers In/Out.

| | <u>Transfer In</u> | <u>Transfers Out</u> |
|---------------------------|---------------------|--------------------------|
| Governmental Funds: | | |
| General fund | \$ 9,258 | \$ 1,025,870 |
| Hurricane Katrina Repairs | 587,037 | -- |
| Other Governmental Funds | <u>452,300</u> | <u>22,725</u> |
| Total | <u>\$ 1,048,595</u> | <u>\$ 1,048,595</u> |

The transfers were all routine transfers to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.

**PEARL RIVER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

(4) Capital Assets.

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

| | Balance 7/1/2006 | Additions | Retirements | Completed Construction | Adjustments | Balance 6/30/2007 |
|-----------------------------------------------|----------------------|---------------------|-------------|---------------------------|------------------|----------------------|
| <u>Non-depreciable capital assets:</u> | | | | | | |
| Land | \$ 359,361 | \$ - | \$ - | \$ - | \$ - | \$ 359,361 |
| Construction in progress | - | 229,437 | - | - | - | 229,437 |
| Total non-depreciable capital assets | <u>\$ 359,361</u> | <u>\$ 229,437</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 588,798</u> |
| <u>Depreciable capital assets:</u> | | | | | | |
| Buildings | \$ 12,995,715 | \$ 15,362 | \$ - | \$ - | \$ - | \$ 13,011,077 |
| Building improvements | 2,213,523 | - | - | - | - | \$ 2,213,523 |
| Improvements other than buildings | 729,360 | 75,561 | - | - | - | \$ 804,921 |
| Mobile equipment | 1,777,996 | 223,800 | - | - | - | \$ 2,001,796 |
| Furniture and equipment | 573,232 | 59,533 | - | - | 13,489 | \$ 646,254 |
| Total depreciable capital assets | <u>\$ 18,289,826</u> | <u>\$ 374,256</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 13,489</u> | <u>\$ 18,677,571</u> |
| <u>Less accumulated depreciation:</u> | | | | | | |
| Buildings | \$ 2,334,412 | \$ 247,406 | \$ - | \$ - | \$ - | \$ 2,581,818 |
| Building Improvements | 379,954 | 86,973 | - | - | - | \$ 466,927 |
| Improvements other than buildings | 199,788 | 32,197 | - | - | - | \$ 231,985 |
| Mobile equipment | 1,004,868 | 138,027 | - | - | - | \$ 1,142,895 |
| Furniture and equipment | 423,475 | 56,321 | - | - | 4,850 | \$ 484,646 |
| Total accumulated depreciation | <u>\$ 4,342,497</u> | <u>\$ 560,924</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 4,850</u> | <u>\$ 4,908,271</u> |
| Total depreciable capital assets, net | <u>\$ 13,947,329</u> | <u>\$ (186,668)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 8,639</u> | <u>\$ 13,769,300</u> |
| Governmental activities capital assets, net | <u>\$ 14,306,690</u> | <u>\$ 42,769</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 8,639</u> | <u>\$ 14,358,098</u> |

Depreciation expense was charged to the following governmental functions:

| | |
|----------------------------|-------------------|
| | <u>Amount</u> |
| Instruction | \$ 325,956 |
| Support services | 181,934 |
| Non-instructional | 53,034 |
| Total depreciation expense | <u>\$ 560,924</u> |

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

| | | |
|-------------|---------------------------------|--------------------------------------|
| | <u>Remaining Commitment</u> | <u>Required future Financing</u> |
| Field house | \$625,000 | None |

**PEARL RIVER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

(5) Long-term liabilities.

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

| | | | | | Amounts due | |
|-------------------------------------|---------------------|-------------|------------------|-------------|----------------------|--------------------|
| | Balance 7-1-2006 | Addition | Reductions | Adjustments | Balance 6-30-2007 | within one year |
| A. General obligation bonds payable | \$3,895,000 | \$ - | \$ 285,000 | \$ - | \$3,610,000 | \$ 290,000 |
| B. Limited obligation bonds payable | 2,515,000 | - | 170,000 | - | 2,345,000 | 180,000 |
| C. Three mill notes payable | 1,583,000 | - | 215,000 | - | 1,368,000 | 218,000 |
| D. Qualified zone academy bonds | 1,000,000 | - | - | - | 1,000,000 | - |
| E. Compensated absences payable | <u>69,666</u> | - | <u>6,035</u> | <u>-</u> | 63,631 | <u>6,363</u> |
| Total | <u>\$9,062,666</u> | <u>\$ -</u> | <u>\$676,035</u> | <u>\$ -</u> | <u>\$8,386,631</u> | <u>\$694,363</u> |

A. General obligation bonds payable.

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

| Description | Interest | Issue | Maturity | Amount | Amount |
|----------------------------------------------------|----------|------------|------------|--------------|-------------|
| | Rate | Date | Date | Issued | Outstanding |
| General obligation refunding bonds, Series 2003 | 2.0-3.8% | 08-19-2003 | 08-15-2018 | \$ 4,475,000 | 3,610,000 |

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

| Year Ending June 30 | Principal | Interest | Total |
|------------------------|---------------------|-------------------|---------------------|
| 2008 | \$ 290,000 | \$ 119,152 | \$ 409,152 |
| 2009 | 300,000 | 111,902 | 411,902 |
| 2010 | 305,000 | 103,652 | 408,652 |
| 2011 | 305,000 | 94,503 | 399,503 |
| 2012 | 310,000 | 85,353 | 395,353 |
| 2013-2017 | 1,740,000 | 262,626 | 2,002,626 |
| 2018 | <u>360,000</u> | <u>13,860</u> | <u>373,860</u> |
| Total | <u>\$ 3,610,000</u> | <u>\$ 791,048</u> | <u>\$ 4,401,048</u> |

The amount of bonded indebtedness that can be incurred by the school district is limited by state statute. Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in state statutes, have been met. As

**PEARL RIVER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

of June 30, 2007, the amount of outstanding bonded indebtedness was equal to 1% of property assessments as of October 1, 2006. This debt will be retired from the 2003 Bond Retirement Fund.

B. Limited obligation bonds payable.

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

| <u>Description</u> | <u>Interest Rate</u> | <u>Issue Date</u> | <u>Maturity Date</u> | <u>Amount Issued</u> | <u>Amount Outstanding</u> |
|-------------------------------|----------------------|-------------------|----------------------|----------------------|---------------------------|
| State aid capital improvement | | | | | |
| Bonds, series 1998 | 4.25-6.0% | 05-01-1998 | 2000-2018 | \$3,450,000 | \$2,345,000 |

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 | \$ 180,000 | \$ 101,990 | \$ 281,990 |
| 2009 | 190,000 | 94,035 | 284,035 |
| 2010 | 200,000 | 85,550 | 285,550 |
| 2011 | 210,000 | 76,425 | 286,425 |
| 2012 | 215,000 | 66,755 | 281,755 |
| 2013-2017 | 1,270,000 | 167,630 | 1,437,630 |
| 2018 | 80,000 | 1,800 | 81,800 |
| Total | <u>\$2,345,000</u> | <u>\$ 594,185</u> | <u>\$2,939,185</u> |

The state aid capital improvement bonds are secured by an irrevocable pledge of certain revenues the district receives from the state of Mississippi pursuant to the Mississippi Accountability and Adequate Education Program Act, Sections 37-151-1 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 the 1998 Bond Retirement Fund.

C. Three mill notes payable

Debt currently outstanding is as follows:

| <u>Description</u> | <u>Interest Rate</u> | <u>Issue Date</u> | <u>Maturity Date</u> | <u>Amount Issued</u> | <u>Amount Outstanding</u> |
|-------------------------------|----------------------|-------------------|----------------------|----------------------|---------------------------|
| Limited tax note, Series 2004 | 1.4-4.05% | 04-01-2004 | 04-01-2017 | \$ 2,000,000 | \$1,368,000 |

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

**PEARL RIVER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

| <u>June 30</u> | <u>Year Ending Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------|----------------------------------|-------------------|--------------------|
| 2008 | \$ 218,000 | \$ 44,390 | \$ 262,390 |
| 2009 | 200,000 | 39,158 | 239,158 |
| 2010 | 122,000 | 33,858 | 155,858 |
| 2011 | 125,000 | 30,321 | 155,321 |
| 2012 | 110,000 | 26,383 | 136,383 |
| 2013-2017 | <u>593,000</u> | <u>70,941</u> | <u>663,941</u> |
| Total | <u>\$1,368,000</u> | <u>\$ 245,051</u> | <u>\$1,613,051</u> |

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

D. Qualified Zone Academy Bonds Payable

As more fully explained in Note 11, debt has been issued by the school district that qualifies as Qualified Zone Academy bonds. Debt currently outstanding is as follows:

| <u>Description</u> | <u>Interest Rate</u> | <u>Issue Date</u> | <u>Maturity Date</u> | <u>Amount Issued</u> | <u>Amount Outstanding</u> |
|---------------------------------------------------------------------|--------------------------|-----------------------|--------------------------|--------------------------|-------------------------------|
| Limited tax note, Certification of Participation, Series 2004 | 4.65% | 01-15-2005 | 11-14-2014 | \$ 1,000,000 | \$1,000,000 |

F. 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 rate for fiscal year ended June 30, 2007 was 11.3% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2007, 2006 and 2005 were \$1,236,931, \$1,088,822, and \$907,191, respectively, which equaled the required contributions for each year.

**PEARL RIVER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

(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 June 30</u> | <u>Amount</u> |
|--------------------------------|----------------------------|
| 2008 | \$ 59,890 |
| 2009 | 55,607 |
| 2010 | 52,528 |
| 2011 | 44,266 |
| 2012 | 44,266 |
| 2013-2017 | 213,887 |
| 2018-2022 | 198,970 |
| 2023-2027 | 187,447 |
| 2028-2032 | 165,568 |
| Thereafter | <u>88,115</u> |
| Total | <u>\$ 1,110,544</u> |

(8) Deficit Fund Balance of Individual Funds.

A generic fund type listing of the individual funds that had a deficit fund balance, including the amount of the deficit, is as follows:

| <u>Fund</u> | <u>Fund Balance</u> |
|----------------------------------|---------------------|
| EHA, Part B | \$ 28 |
| Three mills note retirement fund | 22,272 |

The deficit fund balances are in violation of Section 37-61-19, Miss. Code Ann. (1972). These deficits could have been eliminated with a transfer from the District Maintenance Fund (General Fund). Section 37-61-21, Miss. Code Ann. (1972), allows the school board of the school district, with the assistance from the superintendent, to transfer resources to and from functions and funds within the budget when and where needed under certain circumstances.

(9) Prior Period Adjustments/Exhibits.

A summary of fund equity adjustments is as follows:

Exhibit B – Statement of Activities

| <u>Explanations</u> | <u>Amount</u> |
|------------------------------------------------------------------|-----------------|
| To correct a prior year error in recording an asset or liability | <u>\$ 8,639</u> |

**PEARL RIVER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

(10) Risk Management

The school district is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The district carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) Qualified Zone Academy Bonds.

Section 226 of the Taxpayer Relief Act of 1997 (Public Law 105-34) provides for a source of capital at no or nominal interest rates for costs incurred by certain public schools in connection with the establishment of special academic programs from kindergarten through sedentary school, in partnership with the business community. The school district, in agreement with various individuals and other entities, has entered into such an arrangement dated November 18, 2004.

This agreement establishes a method of repayment for a qualified interest-free debt instrument. The agreement requires the school district to deposit funds annually into a sinking fund account on or before November 5 of each year through 2009. The amount accumulated in the sinking fund at the end of the ten-year period will be sufficient to retire the debt. The following schedule reports the yearly deposits to be made to the sinking fund by the school district:

| Year Ending <u>June 30</u> | <u>Amount</u> |
|-------------------------------|-------------------|
| 2005 | \$ 360,000 |
| 2006 | 62,925 |
| 2007 | 62,925 |
| 2008 | 62,925 |
| 2009 | 62,925 |
| 2010 | <u>62,925</u> |
| Total | <u>\$ 674,625</u> |

PEARL RIVER COUNTY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

PEARL RIVER COUNTY SCHOOL DISTRICT

Schedule 1-A

Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2007

| | Budgeted Amounts | | Actual (GAAP Basis) | Variances Positive (Negative) | |
|--------------------------------------------------------------|---------------------|---------------------|---------------------------|----------------------------------|---------------------|
| | Original | Final | | Original to Final | Final to Actual |
| | | | | | |
| Revenues: | | | | | |
| Local sources | \$ 3,962,700 | \$ 4,281,133 | \$ 4,422,049 | \$ 318,433 | \$ 140,916 |
| State sources | 12,309,598 | 12,596,478 | 12,571,235 | 286,880 | (25,243) |
| Federal sources | 75,000 | 108,848 | 112,244 | 33,848 | 3,396 |
| Total Revenues | 16,347,298 | 16,986,459 | 17,105,528 | 639,161 | 119,069 |
| Expenditures: | | | | | |
| Instruction | 10,579,621 | 10,540,484 | 10,333,175 | 39,137 | 207,309 |
| Support services | 5,776,959 | 5,983,088 | 5,366,367 | (206,129) | 616,721 |
| Noninstructional services | 12,000 | 44,786 | 42,709 | (32,786) | 2,077 |
| Facilities acquisition and construction | - | 236,241 | 229,437 | (236,241) | 6,804 |
| Total Expenditures | 16,368,580 | 16,804,599 | 15,971,688 | (436,019) | 832,911 |
| Excess (Deficiency) of Revenues Over Expenditures | (21,282) | 181,860 | 1,133,840 | 203,142 | 951,980 |
| Other Financing Sources (Uses): | | | | | |
| Insurance loss recoveries | 5,000 | 460,147 | 460,147 | 455,147 | - |
| Sale of transportation equipment | 2,000 | - | - | (2,000) | - |
| Operating transfers in | 1,307,554 | 1,621,231 | 1,542,133 | 313,677 | (79,098) |
| Operating transfers out | (1,595,997) | (2,561,385) | (2,558,745) | (965,388) | 2,640 |
| Total Other Financing Sources (Uses) | (281,443) | (480,007) | (556,465) | (198,564) | (76,458) |
| Net Change in Fund Balances | (302,725) | (298,147) | 577,375 | 4,578 | 875,522 |
| Fund Balances: | | | | | |
| July 1, 2006 | 5,237,000 | 7,237,000 | 7,915,617 | 2,000,000 | 678,617 |
| Residual equity transfer in (out) | - | - | 1,189 | - | 1,189 |
| June 30, 2007 | \$ 4,934,275 | \$ 6,938,853 | \$ 8,494,181 | \$ 2,004,578 | \$ 1,555,328 |

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

PEARL RIVER COUNTY SCHOOL DISTRICT
Budgetary Comparison Schedule
Hurricane Katrina Repairs Fund
For the Year Ended June 30, 2007

Schedule 1-B

| | Budgeted Amounts | | Actual (GAAP Basis) | Variances Positive (Negative) | |
|------------------------------------------------------|------------------|-----------|---------------------------|----------------------------------|--------------------|
| | Original | Final | | Original to Final | Final to Actual |
| Revenues: | | | | | |
| Local sources | \$ - | \$ 1,970 | \$ 1,970 | \$ 1,970 | \$ - |
| Total Revenues | - | 1,970 | 1,970 | 1,970 | - |
| Expenditures: | | | | | |
| Instruction | - | 5,061 | 3,732 | (5,061) | 1,329 |
| Support services | - | 585,276 | 585,275 | (585,276) | 1 |
| Facilities acquisition and construction | 1,000,000 | - | - | 1,000,000 | - |
| Total Expenditures | 1,000,000 | 590,337 | 589,007 | 409,663 | 1,330 |
| Excess (Deficiency) of Revenues Over Expenditures | (1,000,000) | (588,367) | (587,037) | 411,633 | 1,330 |
| Other Financing Sources (Uses): | | | | | |
| Insurance loss recoveries | 1,000,000 | - | - | (1,000,000) | - |
| Operating transfers in | - | 586,898 | 587,037 | 586,898 | 139 |
| Total Other Financing Sources (Uses) | 1,000,000 | 586,898 | 587,037 | (413,102) | 139 |
| Net Change in Fund Balances | - | (1,469) | - | (1,469) | 1,469 |
| Fund Balances: | | | | | |
| July 1, 2006 | 46,000 | 46,000 | - | - | (46,000) |
| June 30, 2007 | \$ 46,000 | \$ 44,531 | \$ - | \$ (1,469) | \$ (44,531) |

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

PEARL RIVER COUNTY SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2007

Budgetary Comparison Schedules

(1) Basis of Presentation

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

(2) Budget amendments and revision

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 States of America.

PEARL RIVER COUNTY SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

PEARL RIVER COUNTY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2007

| Federal Grantor/ Pass-through Grantor/ <u>Program Title</u> | Catalog of Federal Domestic <u>Assistance Number</u> | Federal <u>Expenditures</u> |
|--------------------------------------------------------------------|------------------------------------------------------------|--------------------------------|
| <u>U. S. Department of Agriculture</u> | | |
| Passed-through Mississippi Department of Education: | | |
| Non-cash assistance: | | |
| Food donation | 10.550 | \$ 53,367 |
| Child nutrition cluster | | |
| School breakfast program | 10.553 | 188,113 |
| National school lunch program | 10.555 | 642,997 |
| Summer food service program for children | 10.559 | 25,652 |
| Total child nutrition cluster | | <u>856,762</u> |
| Total U.S. Department of Agriculture | | <u>910,129</u> |
| <u>U.S. Department of Defense</u> | | |
| Direct Program: | | |
| Reserve Officers' Training Corps | 12.XXX | 52,344 |
| Total U.S. Department of Defense | | <u>52,344</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 | 29,882 |
| Total Federal Communications Commission | | <u>29,882</u> |
| <u>U. S. Department of Education</u> | | |
| Passed-through Mississippi Department of Education: | | |
| Title I - grants to local educational agencies | 84.010 | 526,992 |
| Vocational education - basic grants to states | 84.048 | 147,739 |
| Safe and drug-free schools and communities national programs | 84.184 | 57,803 |
| Safe and drug-free schools and communities - state grants | 84.186 | 8,862 |
| State grants for innovative programs | 84.298 | 4,752 |
| Rural education | 84.358 | 97,297 |
| English language acquisition grants | 84.365 | 16,395 |
| Improving teacher quality - state grants | 84.367 | 167,352 |
| Grants for state assessments and related activities | 84.369 | 13,467 |
| Hurricane education recovery | 84.938 | 577,314 |
| Total | | <u>1,617,973</u> |
| Special education cluster: | | |
| Special education - grants to states | 84.027 | 579,363 |
| Special education - preschool grants | 84.173 | 36,656 |
| Total | | <u>616,019</u> |
| Total passed-through Mississippi Department of Education | | <u>2,233,992</u> |
| Total U.S. Department of Education | | <u>2,233,992</u> |
| <u>U. S. Department of Health and Human Services</u> | | |
| Passed-through the Mississippi Department of Education: | | |
| Medical assistance program | 93.778 | 33,848 |
| Total U.S. Department of Health and Human Services | | <u>33,848</u> |
| Total for All Federal Awards | | <u>\$ 3,260,195</u> |

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

| <u>Expenditures</u> | <u>Total</u> | <u>Instruction and Other Student Instructional Expenditures</u> | <u>General Administration</u> | <u>School Administration</u> | <u>Other</u> |
|------------------------------|----------------------|-------------------------------------------------------------------------|-----------------------------------|----------------------------------|---------------------|
| Salaries and fringe benefits | \$ 14,788,240 | \$ 11,843,155 | \$ 625,111 | \$ 1,063,682 | \$ 1,256,292 |
| Other | <u>7,131,483</u> | <u>2,084,271</u> | <u>251,720</u> | <u>92,589</u> | <u>4,702,903</u> |
| Total | <u>\$ 21,919,723</u> | <u>\$ 13,927,426</u> | <u>\$ 876,831</u> | <u>\$ 1,156,271</u> | <u>\$ 5,959,195</u> |
| Total number of students | <u>2,817</u> | | | | |
| Cost per student | <u>\$ 7,780</u> | <u>\$ 4,944</u> | <u>\$ 311</u> | <u>\$ 410</u> | <u>\$ 2,115</u> |

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

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

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

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

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

PEARL RIVER COUNTY SCHOOL DISTRICT

**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 ACCOURDANCE WITH
GOVERNMENT AUDITING STANDARDS**

American Institute of
Certified Public Accountants

King CPA, PLLC

206 Hwy 42 P.O. Box 1182

Petal, MS 39465

Telephone 601-544-9795...Fax 601-544-9793

Mississippi Society of
Certified Public Accountants

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

Superintendent and School Board
Pearl River County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Pearl River County School District as of and for the year ended June 30, 2007, which collectively comprise the Pearl River County School District's basic financial statements and have issued our report thereon dated August 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Costs as Findings 2007-01 and 2007-02 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies, and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that we have reported to management of the school district in a separate letter dated August 29, 2008, which is included in this report.

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

King CPA, PLLC
KING CPA, PLLC
Petal, Mississippi
August 29, 2008

PEARL RIVER COUNTY SCHOOL DISTRICT

**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**

American Institute of
Certified Public Accountants

King CPA, PLLC

206 Hwy 42 P.O. Box 1182

Petal, MS 39465

Telephone 601-544-9795....Fax 601-544-9793

Mississippi Society of
Certified Public Accountants

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

Superintendent and School Board
Pearl River County School District

Compliance

We have audited the compliance of the Pearl River County School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. The school district's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the school district's management. Our responsibility is to express an opinion on the school district's compliance based on our audit.

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

In our opinion, Pearl River County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

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

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

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in the internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as Findings **2007-3, 2007-4, 2007-5, and 2007-6** to be significant deficiencies.

A material weakness is a significant deficiency, or a 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. We did not consider any of the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

Pearl River County School District's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the district's responses and, accordingly, we do not express an opinion on it.

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

King CPA, PLLC

KING CPA, PLLC
Petal, Mississippi
August 29, 2008

PEARL RIVER COUNTY SCHOOL DISTRICT

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH STATE LAWS AND REGULATIONS**

American Institute of
Certified Public Accountants

King CPA, PLLC

206 Hwy 42 P.O. Box 1182

Petal, MS 39465

Telephone 601-544-9795....Fax 601-544-9793

Mississippi Society of
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Superintendent and School Board
Pearl River County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Pearl River County School District as of and for the year ended June 30, 2007, which collectively comprise Pearl River County School District's basic financial statements and have issued our report thereon dated August 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Section 37-9-18(3)(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".

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 **\$6,843** 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 function level expenditure codes in expenditures by the school district."

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

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

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

Finding 1 Shared Townships

The district used the incorrect number of children to allocate revenue to Picayune School District. Section 29-3-119 Miss. Code Ann. (1972) requires that revenue from shared townships must be shared based on applicable percentages derived from the appropriate list of children.

Recommendation:

We recommend the district used correct child counts when making the allocation of shared revenues.

School District Response:

The Pearl River County School district calculates the allocation for shared 16th Section revenue based on the number of students reported by each school district. The total child count reported by Picayune School District was incorrect; however, we did not double check the totals to the supporting bus list. When calculating the 16th Section shared allocation, we will verify that the totals submitted by the other school districts match the supporting data on the number students in the shared townships to ensure that the proper allocation is made.

Finding 2 Unemployment Compensation Fund

The district's Unemployment Compensation Fund was under-funded by \$12,025. Section 71-5-359, Miss Code Ann. (1972), requires districts to maintain a balance in cash and investments of 2% of the covered payroll up to \$6,000 per person.

Recommendation:

We recommend the district comply with Section 71-5-359, Miss Code Ann. (1972).

School District Response:

The Pearl River County School District has implemented procedures to ensure that the Unemployment Compensation Fund is properly funded. The district does an Unemployment Compensation Test once W-2s are completed in January and the fund is replenished at that time if needed. The balance on the Unemployment Compensation Fund is checked again at fiscal year end against the total required from the Unemployment Compensation Test conducted in January and is replenished again if needed.

Finding 3 Activity Fund Accounting

The School Accounting Manual issued by the Mississippi Department of Education requires activity funds be accounted for as "general funds".

In performing tests to the District's activity funds we noted one fund which was improperly classified as a booster club account and was not included in the financial records.

Recommendation:

We recommend the district comply with the School Accounting Manual regarding accounting for student activity funds.

School District Response:

The Pearl River County School District has addressed and corrected this issue. The school store ran by basketball is now treated as an activity fund and all funds go through the district into an activity fund. The new staff member reconciles bank statements

The Office of the State Auditor or a public accounting firm will review, on the subsequent year's audit engagement, the findings in this report to insure that corrective action has been taken.

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

King CPA, PLLC

KING CPA, PLLC
Petal, Mississippi
August 29, 2008

PEARL RIVER COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2007

Section 1: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

4. Type of auditor's report issued on compliance for major federal programs: UNQUALIFIED
5. Internal control over major programs:
 - a. Material weakness (es) identified? NO
 - b. Significant deficiency(ies) identified that are not considered to be material weaknesses? YES
6. Any audit finding(s) reported as required by section __.510(a) of OMB Circular A-133? YES
7. Federal programs identified as major programs:

| | |
|----------------------------------------------|----------------------|
| Child Nutrition Cluster | |
| School Breakfast Program | CFDA # <u>10.553</u> |
| National School Lunch Program | CFDA # <u>10.555</u> |
| Summer Food Service Program for Children | CFDA# <u>10.559</u> |
| Title I – Grants to local education agencies | CFDA # <u>84.010</u> |
| Special Education Cluster | |
| Part A | CFDA# <u>84.027</u> |
| Preschool | CFDA# <u>84.173</u> |
| Hurricane Education Recovery | CFDA# <u>84.938</u> |
8. The dollar threshold used to distinguish between Type A and Type B programs: \$300,000

PEARL RIVER COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs (continued)

Section 1: Summary of Auditor's Results (Continued)

9. Auditee qualified as a low-risk auditee? NO
10. Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audits findings as discussed in Section __.315(b) of OMB Circular A-133? YES

Section 2: Financial Statement Findings

Significant Deficiencies Not Considered Material Weaknesses

2007-1 Lack of Segregation of Duties

During the course of the audit it came to our attention that there was a segregation of duties problem. Segregation of duties within accounting functions is a basic internal control. We noted that the business manager reconciled bank accounts, had access to and the authority to make general ledger entries, had access to the check signing machine and had the authority to make bank transfers.

Recommendation:

We recommend the District review all staff assignments to ensure proper segregation of duties. Without proper segregation of duties fraudulent acts could occur and not be detected in a timely manner. Duties should be assigned in such a way as to limit the ability of any individual to conceal a fraudulent act that may have occurred.

Response: See attached corrective action plan

2007-2 Lack of Expenditure Documentation

The School Accounting Manual issued by the Mississippi Department of Education requires expenditure documentation contain all information necessary to support the transaction.

In performing our tests of expenditures we noted that purchases of food items from a local vendor were not adequately documented. We were unable to determine whether the use of these food items was for legal activities.

Recommendation:

We recommend the district obtain necessary documentation of the nature of expenditures prior to approval of the purchase orders.

Response: See attached corrective action plan

PEARL RIVER COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs (continued)

Section 3: Federal Award Findings and Questioned Cost

Significant Deficiencies Not Considered Material Weaknesses

2007-3 Allowable Costs/Cost Principles

Program: Child Nutrition Cluster: National School Lunch Program CFDA # 10.555, School Breakfast Program CFDA # 10.553, Summer Food Service Program for Children CFDA # 10.559, U.S. Department of Agriculture, pass through the Mississippi Department of Education.

Condition: In our test of allowable costs we noted that workman's compensation had been incorrectly charged to the program due to an error in the rate used by the District.

Criteria: Only amounts actually incurred by the District should be charged to the program.

Effects: The federal program was overcharged for this expense and made an overclaim for reimbursement.

Recommendation: The district should implement a procedure to update applicable rates in the data processing system for payroll related items when rate changes occur.

Response: See attached corrective action plan.

2007-4 Allowable Cost/Cost Principles

Program: Special Education Cluster: Special Education – Grants to States CFDA # 84.027, Special Education – Preschool Grants CFDA # 84.173; U.S. Department of Education; pass through the Mississippi Department of Education.

Condition: In our test of allowable costs we noted that workman's compensation had been incorrectly charged to the program due to an error in the rate used by the District.

Criteria: Only amounts actually incurred by the District should be charged to the program.

Effects: The federal program was overcharged for this expense and made an overclaim for reimbursement.

Recommendation: The district should implement a procedure to update applicable rates in the data processing system for payroll related items when rate changes occur.

Response: See attached corrective action plan.

PEARL RIVER COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs (continue)

Section 3: Federal Award Findings and Questioned Cost (continued)

Significant Deficiencies Not Considered Material Weaknesses

2007-5 Special Reporting

Program: Special Education Cluster: Special Education – Grants to States CFDA # 84.027, Special Education – Preschool Grants CFDA # 84.173; U.S. Department of Education; pass through the Mississippi Department of Education.

Condition: In our tests of special reporting requirements we noted that the annual expenditure report did not agree to the District's general ledger.

Criteria: Amounts submitted on program reports should agree with the District's underlying financial records.

Effects: The district may submit erroneous financial reports.

Recommendation: The district should implement a procedure to reconcile all special reports with the District's accounting records.

Response: See attached corrective action plan.

2007-6 Allowable Cost/Cost Principles

Program: Title I grants to local educational agencies CFDA # 84.010 U.S. Department of Education; pass through the Mississippi Department of Education.

Condition: In our test of allowable costs we noted that workman's compensation had been incorrectly charged to the program due to an error in the rate used by the District.

Criteria: Only amounts actually incurred by the District should be charged to the program.

Effects: The federal program was overcharged for this expense and made an overclaim for reimbursement.

Recommendation: The district should implement a procedure to update applicable rates in the data processing system for payroll related items when rate changes occur.

Response: See attached corrective action plan.

PEARL RIVER COUNTY SCHOOL DISTRICT

AUDITEE'S CORRECTIVE ACTION PLAN

Pearl River County

7441 Highway 11
Carriere, Mississippi 39426
(601) 798-7744
Fax: (601) 798-3527

Financial & Compliance Audit Division

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

Finding Corrective Action Plan Details

- 2007-1 a. Name of Contact Person Responsible for Corrective Action:
- Megan St. Clair
Business Administrator
Phone 601-798-7744
- b. Corrective Action Planned:
 The district has implemented procedures to properly segregate duties within the accounting functions. The district has added an additional staff member to the Business Office to ensure proper segregation of duties. The district has someone independent of the bank reconciliations process to review monthly bank reconciliations. The Business Manager signs the checks and has segregated duties concerning making bank transfers.
- c. Anticipated Completion Date: Procedures are presently in place.
- 2007-2 a. Name of Contact Person Responsible for Corrective Action:
- Megan St. Clair
Business Administrator
Phone 601-798-7744
- b. Corrective Action Planned:
 The district is currently implementing procedures that ensure all necessary supporting documentation be submitted along with purchase requisitions. Purchase Requisitions will not be approved for food purchases for professional development training, meetings, Consumer Science class or student events unless the requisition clearly identifies what the food purchase is for and has supporting documentation attached, such as an agenda, class description, or training documentation.
- c. Anticipated Completion Date: January 1, 2009

Finding Corrective Action Plan Details

- 2007-3 a. Name of Contact Person Responsible for Corrective Action:
- Megan St. Clair
 Business Administrator
 Phone 601-798-7744
- b. Corrective Action Planned:
 The district has implemented a procedure to update applicable rates for workers compensation in the payroll accounting system every March when the rate change occurs.
- c. Anticipated Completion Date: Procedures are presently in place.
- 2007-4 a. Name of Contact Person Responsible for Corrective Action:
- Megan St. Clair
 Business Administrator
 Phone 601-798-7744
- b. Corrective Action Planned:
 The district has implemented a procedure to update applicable rates for workers compensation in the payroll accounting system every March when the rate change occurs.
- c. Anticipated Completion Date: Procedures are presently in place.
- 2007-5 a. Name of Contact Person Responsible for Corrective Action:
- Megan St. Clair
 Business Administrator
 Phone 601-798-7744
- b. Corrective Action Planned:
 The district has implemented a procedure to reconcile the Annual Expenditure Report with the District's Accounting Records.
- c. Anticipated Completion Date: Procedures are presently in place.

Finding Corrective Action Plan Details

2007-6 a. Name of Contact Person Responsible for Corrective Action:

Megan St. Clair
Business Administrator
Phone 601-798-7744

b. Corrective Action Planned:

The district has implemented a procedure to update applicable rates for workers compensation in the payroll accounting system every March when the rate change occurs.

c. Anticipated Completion Date: Procedures are presently in place.

PEARL RIVER COUNTY SCHOOL DISTRICT

AUDITEE'S SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Financial & Compliance Audit Division

As required by Section __.315(b) of OMB Circular A-133, the Pearl River County School District has prepared and hereby submits the following summary schedule of prior audit findings.

| <u>Finding</u> | <u>Status</u> |
|----------------|------------------------------------|
| 98-7 | Corrective action was taken. |
| 02-03 | See finding 2007-5 |
| 05-06 | Corrective action was taken |
| 06-01 | Corrective action was taken |
| 06-02 | See finding 2007-1 |
| 06-03 | Corrective action taken |
| 06-04 | Corrective action taken |
| 06-05 | Corrective action taken |
| 06-06 | Corrective action taken |
| 06-07 | Corrective action taken |
| 06-08 | Corrective action taken |
| 06-09 | Corrective action taken |
| 06-10 | Corrective action taken |
| 06-11 | Corrective action taken |
| 06-12 | Corrective action taken |
| 06-13 | See Finding 2007-3, 2007-4, 2007-6 |
| 06-14 | Corrective action taken |
| 06-15 | Corrective action taken |
| 06-16 | Corrective action taken |