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**PETAL SCHOOL DISTRICT**  
**Audited Financial Statements**  
**For the Year Ended June 30, 2007**

**PETAL SCHOOL DISTRICT**  
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**McDaniel CPA Firm**  
Certified Public Accountant / Financial Consultant

Scotty McDaniel, CPA

MEMBER

Mississippi Society  
of Certified Public  
Accountants

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

February 22, 2008

Superintendent and School Board  
Petal School District

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Petal 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 February 22, 2008, on our consideration of the Petal School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages (3) through (10) and the Budgetary Comparison Schedule and corresponding notes on pages (37) through (38) are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited

procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Petal 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.

*McDaniel CPA Firm*

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

The discussion and analysis of Petal 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. This discussion and analysis does not reflect any financial information related to the component unit.

**FINANCIAL HIGHLIGHTS**

- Total net assets increased \$ 3,517,843, which represents 13.6 % increase from fiscal year 2006.
- General revenues account for \$ 24,895,646 in revenue, or 77.0 % of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$ 7,431,502 or 23.0 % of total revenues.
- The District had \$ 28,670,852 in expenses; only \$ 7,431,502 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$ 24,895,646 were adequate to provide for these programs.
- Among major funds, the General Fund had \$ 25,189,233 in revenues and \$ 21,983,912 in expenditures. The General Fund's fund balance increased \$ 241,066 over the prior year. Most of this increase was due to the over collection of Ad Valorem property taxes which were escrowed for use in the next fiscal year.
- Capital assets, net of accumulated depreciation, increased by \$ 2,054,397.
- Long-term debt increased by \$ 8,317,422. All existing debt except for a limited obligation bond issue with payback from MAEP funds were eliminated during FY 06-07. A general obligation bond issue was made in the amount of \$ 9,000,000. All payments due on debt in FY 06-07 were made.

**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.

**PETAL 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 11 - 12 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 14 and 16, respectively, of this report.

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

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 13 – 16 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 17.

**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 18 -36 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 37 - 38 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and a schedule of instructional, administrative and other expenditures for governmental funds can be found on pages 39 and 40, respectively, of this report.

#### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net assets.** Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$ 29,346,199 as of June 30, 2007.

Of the District's net assets (16.2%) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment, leased property under capital leases and construction in progress) less any related debt 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.

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

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

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

	<u>Net Assets</u>		<u>Percentage Change</u>
	<u>June 30, 2007</u>	<u>June 30, 2006</u>	
Current Assets	25,166,815	15,050,502	67.22%
Capital Assets, Net	17,012,540	14,958,143	13.73%
<b>Total Assets</b>	<b>42,179,355</b>	<b>30,008,645</b>	<b>40.56%</b>
Current Liabilities	475,794	658,043	-27.48%
Long-term debt outstanding	12,357,362	3,524,246	250.64%
<b>Total Liabilities</b>	<b>12,833,156</b>	<b>4,180,289</b>	<b>206.99%</b>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	4,767,540	11,037,563	-56.81%
Restricted	20,865,640	11,712,917	78.14%
Unrestricted	3,713,019	3,077,876	20.64%
<b>Total Net Assets</b>	<b>29,346,199</b>	<b>25,828,356</b>	<b>13.62%</b>

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

- The principal retirement of \$ 675,580 of long-term debt.
- The addition of \$ 2,643,257 in capital assets from the construction in progress of the district wide building program which began in FY 06-07.

**Changes in net assets.** The District's total revenues for the fiscal year ended June 20, 2007 were \$ 32,327,148. The total cost of all programs and services was \$ 28,670,852. The following table presents a summary of the changes in net assets for the fiscal years ending June 30, 2007 and 2006 respectively.

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

	<u>Change in Net Assets</u>		Percentage Change
	<u>June 30, 2007</u>	<u>June 30, 2006</u>	
<b>Revenues:</b>			
Program Revenues:			
Charges for Services	\$ 1,229,026	\$ 875,251	40.42%
Operating grants and contributions	6,202,476	8,457,739	-26.67%
General revenues:			
Property taxes	7,319,845	6,614,784	10.66%
Grants and contributions not restricted	15,985,382	16,114,271	-0.80%
Other	1,590,419	2,285,013	-30.40%
<b>Total revenues</b>	<u>32,327,148</u>	<u>34,347,058</u>	<u>-5.88%</u>
<b>Expenses:</b>			
Instruction	16,116,067	15,377,335	4.80%
Support Services	9,722,846	9,138,179	6.40%
Non-instructional	2,330,352	2,013,003	15.76%
Sixteenth Section	1,135	690	64.49%
Interest and other expense on long-term liabilities	500,452	196,500	154.68%
<b>Total expenses</b>	<u>28,670,852</u>	<u>26,725,707</u>	<u>7.28%</u>
<b>Increase (Decrease) in net assets</b>	<u>3,656,296</u>	<u>7,621,351</u>	<u>-52.03%</u>
<b>Net Assets, July 1</b>	<u>25,828,356</u>	<u>18,207,005</u>	<u>41.86%</u>
<b>Prior Period Adjustment</b>	<u>(138,453)</u>	<u>-</u>	
<b>Net Assets, July 1, restated</b>	<u>25,689,903</u>	<u>18,207,005</u>	<u>41.10%</u>
<b>Net Assets, June 30</b>	<u>\$ 29,346,199</u>	<u>\$ 25,828,356</u>	<u>13.62%</u>

**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.

	<u>2007</u>		<u>2006</u>	
	<u>Total Expenses</u>	<u>Net(Expense) Revenue</u>	<u>Total Expenses</u>	<u>Net(Expense) Revenue</u>
Instruction	\$ 16,116,067	\$ (12,878,346)	\$ 15,377,335	\$ (10,642,154)
Support Services	9,722,846	(7,868,398)	9,138,179	(6,888,991)
Non-instructional	2,330,352	(3,221)	2,013,003	335,618
Sixteenth Section	1,135	11,067	690	(690)
Interest and other expenses on long-term liabilities	500,452	(500,452)	196,500	(196,500)
<b>Total expenses</b>	<u>\$ 28,670,852</u>	<u>\$ (21,239,350)</u>	<u>\$ 26,725,707</u>	<u>\$ (17,392,717)</u>

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

- Net cost of governmental activities (\$ 21,239,350) was financed by general revenue, which is made up of primarily property taxes \$ 7,319,845 and state revenue \$ 15,868,807.
- Investment earnings accounted for \$ 930,290 of funding.

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$ 25,003,862, an increase of \$ 10,034,574 due primarily to the issuance of general obligation bonds in the amount of \$ 9,000,000. The amount of fund balance reserved for capital projects is \$ 18,400,374.

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 \$ 241,066 as a result of not expending budgeted funds for maintenance and building. The fund balance of Other Governmental Funds showed an increase of \$ 694,397 due primarily to an increase in anticipated state and federal revenues.

**BUDGETARY HIGHLIGHTS**

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

- The implementation of the building program began and expenditures for construction were made.
- The general obligation bond issue in the amount of \$ 9,000,000 increased proceeds from bond issue and the costs associated with the issue were booked as expenditures.

A schedule showing the original and final budget amounts compared to the District's actual financial activity for the General 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 \$ 25,424,937, including land, school buildings, busses, other school vehicles and furniture and equipment. This amount represents an

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

net increase of \$ 2,054,397 from the previous year. Total accumulated depreciation as of June 30, 2007 was \$ 8,412,397 resulting in total net capital assets of \$ 17,012,540.

	Capital Assets, Net of Depreciation		Percentage Change
	2007	2006	
Land	1,366,385	1,366,385	0%
Construction in progress	2,135,547	-	
Buildings	11,836,429	12,173,943	-3%
Improvements other than buildings	627,198	498,697	26%
Mobile equipment	498,894	487,285	2%
Furniture and equipment	548,087	431,833	27%
<b>Total</b>	<b>17,012,540</b>	<b>14,958,143</b>	<b>14%</b>

Additional information of the District's capital assets can be found in Note 4 on pages 28- 29 of this report.

**Debt Administration.** At June 30, 2007, the District had \$ 12,357,362 in other long-term debt outstanding, of which \$ 540,000 is due within one year.

	Outstanding Debt		Percentage Change
	2007	2006	
General obligation bonds payable	9,000,000	-	
Limited obligation bonds payable	3,245,000	3,450,000	-6%
Certificates of participation payable	-	115,000	-100%
Three mill notes payable	-	265,000	-100%
Transportation notes payable	-	90,580	-100%
Compensated absences payable	112,362	119,360	-6%
<b>Total</b>	<b>12,357,362</b>	<b>4,039,940</b>	<b>206%</b>

Additional information of the District's long-term debt can be found in Note 5 on page 30 of this report.

**CURRENT ISSUES**

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

The Petal School District passed and issued a \$ 9 million dollar bond issue in fiscal year 2006-2007. A district wide building program began in FY 2006-2007 which included a new primary school, access road, and softball complex.

The District has committed itself to financial excellence for many years. The mills have not increased in any of the previous 5 years. In addition, the District system of financial planning, budgeting and internal

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

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 will increase. 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 Petal School District, P. O. Box 523, Petal, MS 39465.

***BASIC FINANCIAL STATEMENTS***

PETAL SCHOOL DISTRICT  
Statement of Net Assets  
June 30, 2007

Exhibit A

	Primary Government	Component Unit
	Governmental Activities	Petal School District Education Foundation Trust
<b>Assets:</b>		
Cash and cash equivalents	\$ 7,030,748	535,276
Cash with fiscal agents	120,024	
Investments	16,629,211	
Due from other governments	697,531	
Accrued interest receivable	533,135	
Inventories and prepaid items	67,900	
Restricted assets	88,266	
Capital assets, non-depreciable:		
Land	1,366,385	
Construction in progress	2,135,547	
Capital assets, net of accumulated depreciation:		
Buildings	11,836,429	
Improvements other than buildings	627,198	
Mobile equipment	498,894	
Furniture and equipment	548,087	
<b>Total Assets</b>	<b>42,179,355</b>	<b>535,276</b>
<b>Liabilities:</b>		
Accounts payable and accrued liabilities	162,953	144,000
Interest payable on long-term liabilities	312,841	
Long-term liabilities, due within one year:		
Capital related liabilities	540,000	
Non-capital related liabilities	19,833	
Long-term liabilities, due beyond one year:		
Capital related liabilities	11,705,000	
Non-capital related liabilities	92,529	
<b>Total Liabilities</b>	<b>12,833,156</b>	<b>144,000</b>
<b>Net Assets:</b>		
Investments in capital assets, net of related debt	4,767,540	
Restricted net assets:		
Expendable:		
School-based activities	2,379,234	
Debt service	287,371	
Capital improvements	17,683,654	
Forestry improvements	45,894	
Unemployment benefits	71,856	
Non-expendable:		
Sixteenth section	397,631	
Other		217,033
Unrestricted	3,713,019	174,243
<b>Total Net Assets</b>	<b>29,346,199</b>	<b>391,276</b>

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



PETAL SCHOOL DISTRICT  
 Balance Sheet - Governmental Funds  
 June 30, 2007

Exhibit C

	Major Funds				Total Governmental Funds
	General Fund	Building Project Fund	Bond Issue Fund	Other Governmental Funds	
<b>ASSETS</b>					
Cash and cash equivalents	\$ 3,157,118	2,171,881	100,020	1,689,995	\$ 7,119,014
Cash with fiscal agents				120,024	120,024
Investments		7,000,000	8,479,211	1,150,000	16,629,211
Due from other governments	361,303			336,228	697,531
Accrued interest receivable		224,421	271,845	36,869	533,135
Due from other funds	127,414			19,833	147,247
Advance to other funds				309,365	309,365
Inventories and prepaid items	24,171			43,729	67,900
<b>Total Assets</b>	<b>3,670,006</b>	<b>9,396,302</b>	<b>8,851,076</b>	<b>3,706,043</b>	<b>25,623,427</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable and accrued liabilities	36,396		67,458	59,099	162,953
Due to other funds	32,000			115,247	147,247
Advances from other funds	309,365				309,365
<b>Total Liabilities</b>	<b>377,761</b>	<b>-</b>	<b>67,458</b>	<b>174,348</b>	<b>619,565</b>
<b>Fund Balances:</b>					
<b>Reserved for:</b>					
Advances				309,365	309,365
Inventory	1,903			43,729	45,632
Prepaid items	22,268				22,268
Capital projects		9,396,302	8,783,618	220,454	18,400,374
Debt service				600,212	600,212
Unemployment benefits				71,856	71,856
Forestry improvement purposes				45,894	45,894
Permanent fund purposes				397,632	397,632
<b>Unreserved:</b>					
<b>Undesignated, reported in:</b>					
General Fund	3,268,074				3,268,074
Special Revenue Funds				1,842,555	1,842,555
<b>Total Fund Balances</b>	<b>3,292,245</b>	<b>9,396,302</b>	<b>8,783,618</b>	<b>3,531,697</b>	<b>25,003,862</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 3,670,006</b>	<b>9,396,302</b>	<b>8,851,076</b>	<b>3,706,043</b>	<b>\$ 25,623,427</b>

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

Exhibit C-1

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	<u>Amount</u>
Total fund balance - governmental funds	\$ 25,003,862
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets are used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$ 8,412,397.	17,012,540
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(12,357,362)
3. Governmental funds recognize interest on long-term debt when it becomes due, however the Statement of Net Assets recognizes interest as it accrues.	(312,841)
Total net assets - governmental activities	<u>\$ 29,346,199</u>

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

Exhibit D

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	Building Project Fund	Bond Issue Fund		
<b>Revenues:</b>					
Local sources	\$ 7,821,889	262,868	282,268	1,388,510	\$ 9,755,535
State sources	17,248,104			1,066,578	18,314,682
Federal sources	119,240			3,753,935	3,873,175
Sixteenth section sources				159,772	159,772
<b>Total Revenues</b>	<b>25,189,233</b>	<b>262,868</b>	<b>282,268</b>	<b>6,368,795</b>	<b>32,103,164</b>
<b>Expenditures:</b>					
Instruction	13,597,472			2,783,135	16,380,607
Support services	7,944,681			1,300,278	9,244,959
Noninstructional services	115,789			2,316,735	2,432,504
Sixteenth section				1,136	1,136
Facilities acquisition and construction	2,400	147,375	1,377,297	647,855	2,174,927
Debt service:					
Principal	311,474			364,106	675,580
Interest	12,116			162,538	174,654
Other			71,353	740	72,093
<b>Total Expenditures</b>	<b>21,983,912</b>	<b>147,375</b>	<b>1,448,650</b>	<b>7,576,523</b>	<b>31,156,460</b>
Excess (deficiency) of revenues over expenditures	3,205,321	115,493	(1,166,382)	(1,207,728)	946,704
<b>Other Financing Sources (Uses):</b>					
Proceeds of general obligation bonds			9,000,000		9,000,000
Insurance loss recoveries	1,125			218,859	219,984
Sale of other property	4,000				4,000
Operating transfers in	3,343,340	2,000,000	950,000	2,693,853	8,987,193
Operating transfers out	(6,208,046)	(1,800,000)		(979,147)	(8,987,193)
<b>Total Other Financing Sources (Uses)</b>	<b>(2,859,581)</b>	<b>200,000</b>	<b>9,950,000</b>	<b>1,933,565</b>	<b>9,223,984</b>
<b>Net change in fund balances</b>	<b>345,740</b>	<b>315,493</b>	<b>8,783,618</b>	<b>725,837</b>	<b>10,170,688</b>
<b>Fund Balances:</b>					
July 1, 2006	3,051,179	9,080,809	-	2,837,300	14,969,288
Prior period adjustments	(102,801)			(35,652)	(138,453)
July 1, 2006, as restated	2,948,378	9,080,809	-	2,801,648	14,830,835
Increase(Decrease) in reserve for inventory	(1,873)			4,212	2,339
June 30, 2007	\$ 3,292,245	9,396,302	8,783,618	3,531,697	\$ 25,003,862

PETAL SCHOOL DISTRICT  
 Reconciliation of 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

	Amount
Net Change in Fund Balances - Governmental Funds	\$ 10,170,688
Amounts reported for governmental activities in the Statement of Activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchase amounted to \$ 2,643,257 and the depreciation expense amounted to \$ (580,804).	2,062,653
2. The issuance of long-term debt provides current financial resources to governmental funds, but the issuance increases long-term liabilities in the Statement of Net Assets.	(9,000,000)
3. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Activities.	675,580
4. Governmental funds recognize interest on long-term debt when it becomes due, however, the Statement of Activities recognizes interest as it accrues regardless of when it becomes due.	(253,706)
5. Gains and losses on the sale or disposals of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds.	(8,256)
6. Increase ( decrease ) in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are ( decreased ) increased in the Statements of Activities.	2,339
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	6,998
Change in Net Assets of Governmental Activities	<u>\$ 3,656,296</u>

**PETAL SCHOOL DISTRICT  
Statement of Fiduciary Net Assets  
June 30, 2007**

Exhibit E

	<u>Agency Funds</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 1,377,173
<b>Total Assets</b>	<u><u>1,377,173</u></u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	1,339,723
Due to student clubs	37,450
<b>Total Liabilities</b>	<u><u>\$ 1,377,173</u></u>

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

**NOTES TO FINANCIAL STATEMENTS**

## PETAL SCHOOL DISTRICT

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

### (1) Summary of Significant Accounting Policies.

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

#### A. Financial Reporting Entity.

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the school district's governing board. As defined by accounting principles generally accepted in the United States of America, the school district is considered an "other stand-alone government." The school district is a related organization of, but not a component unit of, the city of Petal since the governing authority of the city selects a majority of the school district's board but does not have financial accountability for the school district.

The Petal Schools Leasing Authority ("the Authority") as explained in the following paragraph is considered to be a blended component unit as determined by Section 2100 of the *Codification of Governmental Accounting and Financial Reporting Standards* and is included in the district's reporting entity.

The Authority is governed by a Petal Schools Leasing Authority member board which was appointed by the school district's governing board. Although it is legally separate from the school district, it is reported as if it is part of the primary government because its sole purpose is to provide financing for the renovation, improvement, construction, and equipping of certain school facilities. Therefore, all of the Authority's assets, liabilities, equity, revenues, expenditures and other financing sources and uses have been included in the government-wide financial statements of the school district (see Note 10).

The component unit column on the financial statements identifies the financial data of the School District's discretely presented component unit, Petal School District Education Foundation Trust, Inc. (PSDEF). It is reported separately to emphasize that it is legally separate from the School District.

Petal School District Education Foundation Trust, Inc. – PSDEF is a legally separate, not-for-profit corporation. The primary purpose of the Foundation is to enhance the quality of education in the Petal School District by providing private funding for teacher enrichment and student enhancement. The Board is composed of eleven (11) members and control of the Foundation is vested in the directors.

#### B. Basis of Presentation.

The school district's basic financial statement 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:***

## PETAL SCHOOL DISTRICT

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

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

#### **C. Measurement Focus and Basis of Accounting.**

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

In the fund financial statements, governmental funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within 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:

## PETAL SCHOOL DISTRICT

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

**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.

**Building Project Fund** – This fund is a capital project fund used to reserve local sources to be expended for capital projects and improvements.

**Bond Issue Fund** – This is a capital projects fund used to account for capital improvements financed with Bond Issue proceeds.

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.

#### FIDUCIARY FUNDS

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

#### D. Account Classifications.

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

#### E. Encumbrances.

**PETAL SCHOOL DISTRICT**

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

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

**F. Cash and Cash Equivalents.**

The school district deposits excess funds in 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 the both the government-wide and governmental fund financial statements.

**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.

**PETAL SCHOOL DISTRICT**

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

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	-	-
Buildings	50,000	40 years
Building improvements	25,000	20 years
Improvements other than buildings	25,000	20 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

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

**J. Long-term liabilities.**

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

**K. Interfund Transactions and Balances.**

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

Short-term (due within one year) interfund loan receivables are reported as "due from other funds" and are considered available expendable resources. Noncurrent portions of long-term interfund loan receivables are reported as advances and are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and, therefore, are not available for appropriation.

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

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

**L. Equity Classifications.**

***Government-wide Financial Statements:***

PETAL SCHOOL DISTRICT

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

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

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

***Fund Financial Statements:***

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

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

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

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

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

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

**PETAL SCHOOL DISTRICT**

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

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

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

**M. Property Taxes.**

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

**N. Mississippi Adequate Education Program Revenues.**

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

**O. Compensated Absences.**

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

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

**(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 and investments are imposed by statutes as follows:

**Deposits.** The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the school 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

## PETAL SCHOOL DISTRICT

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

Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

Investments. Section 29-3-113 and 37-59-43, Miss Code Ann. (1972), authorizes the school board to invest surplus funds in the types of investments authorized by Section 27-105-33(d) and (e), Miss Code Ann. (1972). This section permits the following types of investments: (a) certificates of deposits and interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, the principal and interest of which are fully guaranteed by the government or enumerated agency of the United States; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or interest in, and open-end or closed-end any management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration. Investment income on bond funds (Capital Project 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 \$ 7,119,014, and \$ 1,377,173, respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and cash equivalents \$ 7,030,748 and Restricted Assets - \$ 88,266. The Restricted Assets of \$ 88,266 represent the cash balance of 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 \$ 11,950,570.

*Custodial Credit Risk - Deposits.* Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages the 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 \$ 11,950,570 was exposed to custodial credit risk.

#### **Cash With Fiscal Agents.**

The carrying amount of school districts' cash with fiscal agents held by financial institutions was \$ 120,024.

#### **Investments.**

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

PETAL SCHOOL DISTRICT

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

<u>Investment Type</u>	<u>Maturities ( in years)</u>	<u>Fair Value</u>
Certificates of Deposits	1 to 5	\$ 16,629,211
Total Investments		\$ 16,629,211

*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.

(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	\$ 127,414	32,000
Other governmental funds	19,833	115,247
Total Funds	\$ 147,247	147,247

The purpose of interfund loans was to account for federal funds that were not received until after the year ending 6/30/2007.

B. **Advances To / From Other Funds:**

PETAL SCHOOL DISTRICT

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

	Advances To	Advances From
	<u>                    </u>	<u>                    </u>
Governmental Funds:		
General fund	\$ 309,365	
Other governmental funds		309,365
Total Funds	<u>\$ 309,365</u>	<u>309,365</u>

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

Sixteenth section principal loans payable.

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

Year Ending June 30	Principal	Interest	Total
	<u>                    </u>	<u>                    </u>	<u>                    </u>
2008	20,786	4,831	25,617
2009	20,786	4,831	25,617
2010	20,786	4,831	25,617
2011	20,786	4,831	25,617
2012	20,786	4,831	25,617
2013-2017	87,931	3,517	91,448
2018-2022	83,931	3,359	87,290
2023-2027	33,573	1,343	34,916
Total	<u>\$ 309,365</u>	<u>\$ 32,374</u>	<u>\$ 341,739</u>

PETAL SCHOOL DISTRICT

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

C. Transfers In / Out:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
General fund	\$ 3,343,340	6,208,046
Building project fund	2,000,000	1,800,000
Capital project bond fund	950,000	-
Other governmental funds	2,693,853	979,147
Total Funds	<u>\$ 8,987,193</u>	<u>8,987,193</u>

The purpose of transfers in and transfers out were related to debt service payments and standard operations.

(4) Capital Assets.

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

PETAL SCHOOL DISTRICT

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

	Balance 7/1/2006	Additions	Retirements	Completed Construction	Adjustments	Balance 6/30/2007
<u>Non-depreciable capital</u>						
Land	\$ 1,366,385					\$ 1,366,385
Construction in progress	-	2,135,547				2,135,547
Total non-depreciable	1,366,385	2,135,547	-	-	-	3,501,932
<u>Depreciable capital assets</u>						
Buildings	17,693,774					17,693,774
Improvements other than buildings	558,678	167,255				725,933
Mobile equipment	2,183,319	144,100	(96,385)			2,231,034
Furniture and equipment	1,108,302	196,355	(32,393)			1,272,264
Total depreciable capital	21,544,073	507,710	(128,778)	-	-	21,923,005
<u>Less accumulated:</u>						
Buildings	5,519,831	337,514				5,857,345
Improvements other than buildings	59,981	38,754				98,735
Mobile equipment	1,696,034	122,853	(86,747)			1,732,140
Furniture and equipment	676,469	81,483	(33,775)			724,177
Total accumulated depreciation	7,952,315	580,604	(120,522)	-	-	8,412,397
Total depreciable capital assets, net	13,591,758	(72,894)	(8,256)	-	-	13,510,608
Governmental activities capital assets, net	\$ 14,958,143	2,062,653	(8,256)	-	-	\$ 17,012,540

Depreciation expense was charged to the following governmental functions:

PETAL SCHOOL DISTRICT

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

	<u>Amount</u>
Instruction	\$ 15,852
Support Services	536,942
Non-instructional	27,810
Total depreciation expense	<u>\$ 580,604</u>

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

	Remaining Commitment	Required Future Financing
K-12 Primary School	\$ 11,299,418	-
Music & Choral Building @ PHS	1,193,454	-
Road	465,069	-
Softball Field, Parking Lot	<u>1,106,487</u>	<u>-</u>
Total	<u>\$ 14,064,428</u>	<u>-</u>

(5) Long-term liabilities.

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

PETAL SCHOOL DISTRICT

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

	Balance 7/1/2006	Additions	Reductions	Balance 6/30/2007	Amounts due within one year
A. General obligation bonds payable	-	9,000,000		9,000,000	325,000
B. Limited obligation bonds payable	3,450,000		(205,000)	3,245,000	215,000
C. Certificates of participation payable	115,000		(115,000)	-	
D. Three mill - ten year notes payable	265,000		(265,000)	-	
E. Transportation equipment loans payable	90,580		(90,580)	-	
F. Compensated absences payable	119,360		(6,998)	112,362	
<b>Total</b>	<b>\$ 4,039,940</b>	<b>9,000,000</b>	<b>(682,578)</b>	<b>12,357,362</b>	<b>540,000</b>

**A. General obligation bonds payable.**

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
General obligation bonds, series 2007	varies	11/1/2006	9/1/2026	9,000,000	9,000,000
<b>Total</b>				<b>\$ 9,000,000</b>	<b>\$ 9,000,000</b>

**PETAL SCHOOL DISTRICT**

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

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

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	325,000	497,847	822,847
2009	300,000	355,287	655,287
2010	325,000	339,272	664,272
2011	350,000	321,975	671,975
2012	375,000	303,397	678,397
2013-2017	2,450,000	1,179,619	3,629,619
2018-2022	2,225,000	681,700	2,906,700
2023-2027	2,650,000	237,475	2,887,475
<b>Total</b>	<b>\$ 9,000,000</b>	<b>\$ 3,916,572</b>	<b>\$ 12,916,572</b>

The amount of bonded indebtedness that can be incurred by the school district is limited by state statute. Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in state statutes, have been met. As of June 30, 2007, the amount of outstanding bonded indebtedness was equal to 6.2 % of property assessments as of October 1, 2006. This debt will be retired from the Bond Issue Debt Service Fund # 4031.

**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</u> <u>Rate</u>	<u>Issue</u> <u>Date</u>	<u>Maturity</u> <u>Date</u>	<u>Amount</u> <u>Issued</u>	<u>Amount</u> <u>Outstanding</u>
State aid capital improvement bonds, series 98	varies	02/25/1998	02/25/2017	4,720,000	3,245,000
<b>Total</b>				<b>\$ 4,720,000</b>	<b>\$ 3,245,000</b>

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

PETAL SCHOOL DISTRICT

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

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	215,000	141,847	356,847
2009	225,000	131,147	356,147
2010	230,000	121,050	351,050
2011	240,000	110,475	350,475
2012	250,000	99,450	349,450
2013-2017	1,455,000	311,737	1,766,737
2018-2022	630,000	21,037	651,037
Total	<u>\$ 3,245,000</u>	<u>\$ 936,743</u>	<u>\$ 4,181,743</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 MAEP debt service fund.

**C. Certificates of participation payable.**

This debt was paid off during the current year.

**D. Three mill- ten year notes payable.**

This debt was paid off during the current year.

**E. Transportation equipment loans payable.**

This debt was paid off during the current year.

**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), Mississippi Code Annotated (1972). Compensated absences will be paid from the fund from which the employees' salaries were paid.

PETAL SCHOOL DISTRICT

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

(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 Employee's Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, Mississippi 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy. PERS members are required to contribute 7.25 % of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The current rate is 11.30% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2007, 2006, and 2005 were \$ 1,811,925, \$ 1,655,052 and \$1,524,918, respectively, which equaled the required contributions for each year.

(7) **Sixteenth Section Lands.**

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

Year Ending June 30	Amount
2008	38,507
2009	38,499
2010	38,277
2011	38,355
2012	36,851
2013-2017	168,627
2018-2022	165,893
2023-2027	165,833
2028-2032	165,063
Thereafter	381,083
Total	<u>\$ 1,236,988</u>

PETAL SCHOOL DISTRICT

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

(8) **Prior Period Adjustments/Exhibits.**

A summary of significant fund equity adjustments is as follows:

Exhibit B – Statement of Activities

<u>Explanation:</u>	<u>Amount</u>
1. Adjustments related to the recording of prior period transactions.	<u>(138,453)</u>

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

<u>Major Funds:</u>	<u>Explanations</u>	<u>Amount</u>
General Fund	Adjustment related to prior year transaction.	\$ (102,801)
Other governmental funds	Adjustment related to prior year transaction.	<u>(35,652)</u>
	Total	<u>\$ (138,453)</u>

(9) **Risk Management.**

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

Participation in Public Entity Risk Pool.

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 121 school districts and one community college and covers risks of loss arising from injuries to the member's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by BancorpSouth Bank in Jackson. The funds in the trust account are used to pay any claim up to \$700,000. For a claim exceeding \$700,000, MSBAWCT has insurance which will pay the excess to the statutory amount required by the Mississippi Workers Compensation Commission Act. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies.

## PETAL SCHOOL DISTRICT

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

On September 30, 2006, Petal School District was assessed an additional assessment of \$2,496, depending upon their years of membership in the MSBAWCT. This assessment is allowed to be repaid at a rate of 5% of their current premium per year until the total assessment is fully paid as long as they continue as members. If a member leaves the pool, they must repay the complete balance of the assessment within two years in equal installments.

#### (10) Trust Certificates.

A trust agreement dated March 15, 1993, was executed by and between the school district and Bank of Mississippi of Jackson, Mississippi, as trustees.

The trust agreement authorized the issuance of trust certificates in the principal amount of \$1,200,000. Approximately \$ 1,180,000 was used to provide financing for the construction and renovation of school buildings and related facilities and equipment (the "project"); the remainder of approximately \$ 20,000 was used to pay the cost of issuance.

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

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

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

***REQUIRED SUPPLEMENTARY INFORMATION***

PETAL SCHOOL DISTRICT  
 Budgetary Comparison Schedule for the General Fund  
 For the Year Ended June 30, 2007

Schedule 1

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	6,965,919	7,814,875	7,821,889	848,956	7,014
State sources	17,206,837	17,195,055	17,248,104	(11,582)	53,049
Federal sources	86,100	110,397	119,240	24,297	8,843
<b>Total Revenues</b>	<b>24,258,856</b>	<b>25,120,327</b>	<b>25,189,233</b>	<b>861,671</b>	<b>68,906</b>
<b>Expenditures:</b>					
Instruction	14,200,933	14,179,121	13,597,472	21,812	581,649
Support services	9,355,831	9,388,667	7,944,681	(32,836)	1,443,986
Noninstructional services	211,424	225,669	115,769	(14,245)	109,900
Facilities acquisition and construction	-	2,400	2,400	(2,400)	-
Debt service:					
Principal	28,817	311,474	311,474	(282,857)	-
Interest	-	12,116	12,116	(12,116)	-
<b>Total Expenditures</b>	<b>23,796,805</b>	<b>24,119,447</b>	<b>21,983,912</b>	<b>(322,642)</b>	<b>2,135,535</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>461,851</b>	<b>1,000,880</b>	<b>3,205,321</b>	<b>539,029</b>	<b>2,204,441</b>
<b>Other Financing Sources:</b>					
Insurance loss recoveries			1,125	-	1,125
Sale of other property			4,000	-	4,000
Operating transfers in	4,021,228	3,343,340	3,343,340	(677,888)	-
Operating transfers out	(4,872,000)	(6,208,046)	(6,208,046)	(1,336,046)	-
<b>Total Other Financing Sources (Uses)</b>	<b>(850,772)</b>	<b>(2,864,706)</b>	<b>(2,859,581)</b>	<b>(2,013,934)</b>	<b>5,125</b>
<b>Net change in fund balances</b>	<b>(388,921)</b>	<b>(1,863,826)</b>	<b>345,740</b>	<b>(1,474,905)</b>	<b>2,209,566</b>
<b>Fund Balances:</b>					
July 1, 2006	2,365,389	3,051,179	3,051,179	685,790	-
Prior period adjustment	-	-	(102,801)	-	(102,801)
July 1, 2006, as restated	2,365,389	3,051,179	2,948,378	685,790	(102,801)
Increase (Decrease) in reserve for inventory	-	(1,873)	(1,873)	(1,873)	-
<b>June 30, 2007</b>	<b>1,976,468</b>	<b>1,185,480</b>	<b>3,292,245</b>	<b>(790,988)</b>	<b>2,106,765</b>

## PETAL SCHOOL DISTRICT

Notes to the Required Supplementary Information  
For the Year Ended June 30, 2007

### Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(2) Budget Amendments and Revisions.

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

***SUPPLEMENTAL INFORMATION***

**PETAL SCHOOL DISTRICT**  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2007

<u>Federal Grantor / Pass-through Grantor / Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Federal Expenditures</u>
<b><u>U.S. Department of Agriculture</u></b>		
Passed - through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	\$ 114,199
Child Nutrition Cluster:		
School breakfast program	10.553	305,513
National school lunch program	10.555	716,937
Summer food service program for children	10.559	26,467
Total child nutrition cluster		<u>1,048,917</u>
Fresh fruit and vegetable program	10.582	106,597
<b>Total U.S. Department of Agriculture</b>		<u><b>1,268,713</b></u>
<b><u>Federal Communications Commission</u></b>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.XXX	60,279
<b>Total Federal Communications Commission</b>		<u><b>60,279</b></u>
<b><u>U.S. Department of Education</u></b>		
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	609,964
Vocational education - basic grants to states	84.048	34,239
Safe and drug-free schools and communities - national programs	84.184	24,251
Safe and drug-free schools and communities - state grants	84.186	12,398
Even start - state educational agencies	84.213	156,925
Carol M. White physical education program	84.215F	143,829
Eisenhower professional development state grants	84.281	19,478
Twenty-first century community learning centers	84.287	311,570
State grants for innovative programs	84.298	7,223
Teacher quality enhancement grants	84.336	500
Improving teacher quality - state grants	84.367	137,417
Hurricane education recovery	84.938	88,429
Total		<u>1,546,223</u>
Special education cluster:		
Special education - grants to states	84.027	872,606
Special education - preschool grants	84.173	58,264
Total special education cluster		<u>930,870</u>
Total passed-through Mississippi Department of Education		<u>2,477,093</u>
<b>Total U.S. Department of Education</b>		<u><b>2,477,093</b></u>
<b><u>U.S. Department of Health and Human Services</u></b>		
Passed-through Mississippi Department of Health and Human Services:		
Medical assistance program	93.778	50,117
Total		<u>50,117</u>
<b>Total U.S. Department of Health and Human Services</b>		<u><b>50,117</b></u>
<b>Total for All Federal Awards</b>		<u><b>\$ 3,857,202</b></u>

**NOTES TO SCHEDULE**

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

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

Expenditures	Total	Instruction and Other			Other	
		Student Instructional Expenditures	General Administration	School Administration		
Salaries and fringe benefits	\$ 21,618,417	16,305,739	1,143,456	1,238,892	2,931,069	
Other	9,539,176	1,917,564	280,766	193,672	7,145,302	
Total	31,156,460	18,223,303	1,424,222	1,432,564	10,076,371	
Total number of students *		3,824				
Cost per student		\$ 8,148				
		372			375	2,635

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

**Instruction and Other Student Instructional Expenditures -**

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

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

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

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

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

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

***REPORTS ON COMPLIANCE AND INTERNAL CONTROL***

**McDaniel CPA Firm**  
Certified Public Accountant / Financial Consultant

Scotty McDaniel, CPA

MEMBER  
Mississippi Society  
of Certified Public  
Accountants

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

February 22, 2008

Superintendent and School Board  
Petal School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Petal School District as of and for the year ended June 30, 2007, which collectively comprise the Petal School District's basic financial statements and have issued our report thereon dated February 22, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of

this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

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

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

*McDaniel CPA Firm*

**McDaniel CPA Firm**  
Certified Public Accountant / Financial Consultant

Scotty McDaniel, CPA

MEMBER  
Mississippi Society  
of Certified Public  
Accountants

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

February 22, 2008

Superintendent and School Board  
Petal School District

**Compliance**

We have audited the compliance of the Petal School District with the types of compliance requirements described in *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The school district's major federal programs are identified in the summary of auditor's results section of the schedule of 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, Petal 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 Petal School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the school district's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over compliance.

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

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

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

This report is intended solely for the information and use of the school board and management, others within the entity, 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.

*McDaniel CPA Firm*

**McDaniel CPA Firm**  
Certified Public Accountant / Financial Consultant

Scotty McDaniel, CPA

MEMBER  
Mississippi Society  
of Certified Public  
Accountants

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

February 22, 2008

Superintendent and School Board  
Petal School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Petal School District as of and for the year ended June 30, 2007, which collectively comprise Petal School District's basic financial statements and have issued our report thereon dated February 22, 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." As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instance of noncompliance. The district reported \$ 9,553 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 ensure correct and appropriate coding at the function level. The audit must include a report showing the correct and appropriate functional level expenditure codes in expenditures by the school district."

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

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

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

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

*McDaniel CPA Firm*

***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

**PETAL SCHOOL DISTRICT**  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007

**Section 1: Summary of Auditor's Results**

**Financial Statements:**

- |     |   |               |
|-----|---|---------------|
| 1 . | Type of auditor's report issued on the financial statements:                                  | unqualified   |
| 2 . | Material noncompliance relating to the financial statements:                                  | no            |
| 3 . | Internal control over financial reporting:  |               |
|     | a. Material weakness(es) identified?  | no            |
|     | b. Significant deficiency (ies) identified that are not considered to be material weaknesses? | none reported |

**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?   | none reported |
| 6 .  | Any audit finding(s) reported as required by section ____ .510(a) of Circular A-133?  | no            |
| 7 .  | Federal programs identified as major programs:  |               |
|      | a. Child Nutrition Cluster  |               |
|      | CFDA#: 10.553   |               |
|      | CFDA#: 10.555   |               |
|      | CFDA#: 10.559   |               |
| 8 .  | The dollar threshold used to distinguish between type A and type B programs:  | \$ 300,000    |
| 9 .  | Auditee qualified as a low-risk auditee?  | yes           |
| 10 . | Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in section ____ .315(b) of OMB Circular A-133? | no            |

Section 2: Financial Statement Findings

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

Section 3: Federal Award Findings and Questioned Costs

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