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PICAYUNE SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2007

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

September 12, 2008

Superintendent and School Board
Picayune School District

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Picayune 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 September 12, 2008, on our consideration of the Picayune 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 (9) and the Budgetary Comparison Schedules and corresponding notes on pages (30) through (31) 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 Picayune 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

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

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

FINANCIAL HIGHLIGHTS

- Total net assets increased \$1,790,007 which includes a prior period adjustment which represents a 13% increase from fiscal year 2006.
- General revenues account for \$25,420,319 in revenue, or 76% of all revenues. Program specific revenues in the form of charges for services, grants and contributions accounted for 8,219,080 or 24% of total revenues.
- The District had \$31,783,005 in expenses; only \$8,219,080 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$25,420,319 were adequate to provide for these programs.
- Among major funds, the General Fund had \$23,171,270 in revenues and \$21,643,520 in expenditures. The General Fund's fund balance increased \$ 542,813 over the prior year.
- Capital assets, net of accumulated depreciation, increased by \$ 215,842.
- Long-term debt decreased by \$ 1,076,941.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

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.

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

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major Special Revenue Fund.

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 \$15,001,129 as of June 30, 2007.

The largest portion of the District's net assets (38%) 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.

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

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

| | Net Assets | | Percentage Change |
|--|-------------------|-------------------|----------------------|
| | June 30, 2007 | June 30, 2006 | |
| Current Assets | 9,954,125 | 10,827,655 | -8.07% |
| Capital Assets, Net | 8,294,350 | 8,078,508 | 2.67% |
| Total Assets | 18,248,475 | 18,906,163 | -3.48% |
| Current Liabilities | 441,992 | 1,812,746 | -75.62% |
| Long-term debt outstanding | 2,805,354 | 3,882,295 | -27.74% |
| Total Liabilities | 3,247,346 | 5,695,041 | -42.98% |
| Net Assets: | | | |
| Invested in capital assets, net of related debt | 5,649,321 | 4,821,789 | 17.16% |
| Restricted | 1,645,304 | 1,798,237 | -8.50% |
| Unrestricted | 7,706,504 | 6,591,096 | 16.92% |
| Total Net Assets | 15,001,129 | 13,211,122 | 13.55% |

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

- The principal retirement of \$1,076,941 of long-term debt.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2007, were \$33,639,399. The total cost of all programs and services was \$31,783,005. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2007 and 2006, respectively.

| | Change in Net Assets | | Percentage Change |
|---|----------------------|----------------------|-------------------|
| | June 30, 2007 | June 30, 2006 | |
| Revenues: | | | |
| Program Revenues: | | | |
| Charges for Services | \$ 882,421 | \$ 703,375 | 25.46% |
| Operating grants and contributions | 7,336,659 | 10,608,444 | -30.84% |
| Capital grants and contributions | - | 479,918 | -100.00% |
| General revenues: | | | |
| Property taxes | 7,275,161 | 6,930,956 | 4.97% |
| Grants and contributions not restricted | 16,198,915 | 15,928,782 | 1.71% |
| Other | 1,946,243 | 1,135,608 | 71.38% |
| Total revenues | 33,639,399 | 35,785,083 | -6.00% |
| Expenses: | | | |
| Instruction | 17,362,323 | 16,463,554 | 5.46% |
| Support Services | 12,268,387 | 10,620,759 | 15.51% |
| Non-instructional | 1,913,482 | 1,703,705 | 12.31% |
| Sixteenth Section | 58,395 | 33,391 | 74.88% |
| Interest and other expense on long-term liabilities | 180,418 | 145,768 | 23.77% |
| Total expenses | 31,783,005 | 28,967,177 | 9.72% |
| Increase (Decrease) in net assets | 1,856,394 | 6,817,906 | -72.77% |
| Net Assets, July 1 | 13,211,122 | 6,439,618 | 105.15% |
| Prior period adjustment | (66,387) | (46,402) | -43.07% |
| Net Assets, July 1 - Restated | 13,144,735 | 6,393,216 | 105.60% |
| Net Assets, June 30 | \$ 15,001,129 | \$ 13,211,122 | 13.55% |

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

| | 2007 | | 2006 | |
|--|----------------------|------------------------|----------------------|------------------------|
| | Total Expenses | Net(Expense) Revenue | Total Expenses | Net(Expense) Revenue |
| Instruction | \$ 17,362,323 | \$ (13,501,253) | \$ 16,463,554 | \$ (8,258,582) |
| Support Services | 12,268,387 | (9,850,973) | 10,620,759 | (8,787,245) |
| Non-instructional | 1,913,482 | 27,114 | 1,703,705 | 47,526 |
| Sixteenth section | 58,395 | (58,395) | 33,391 | (33,391) |
| Interest and other expenses on long-term liabilities | 180,418 | (180,418) | 145,768 | (145,768) |
| Total expenses | \$ 31,783,005 | \$ (23,563,925) | \$ 28,967,177 | \$ (17,175,440) |

- Net cost of governmental activities (\$23,563,925), was financed by general revenue, which is made up of primarily property taxes \$7,275,161 and state revenues \$15,851,668.
- Investment earnings accounted for \$262,205 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 \$ 9,532,383 an increase of \$ 491,529 including the effects of prior period adjustments. \$ 8,942,795 or 93% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$ 589,588 or 7% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$ 542,813. The fund balance of Other Governmental Funds also showed an increase due primarily to the increase on the capital projects and debt service funds.

BUDGETARY HIGHLIGHTS

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

- Budget amounts for revenue from state sources was increased for Mississippi Adequate Education. The original budgeted amounts underestimated slightly for potential cuts by the Mississippi legislature. This was done upon suggestion of the Mississippi Department of Education.
- Budgeted amounts for support services expenditures were decreased due primarily to a reduction in services as a result of reduced revenues.

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 \$13,880,468, including school buildings, buses, other school vehicles, and furniture and equipment. This amount represents an increase of \$336,409 from the previous year. Total accumulated depreciation as of June 30, 2007 was \$5,586,118 and total depreciation expense for the year was \$483,912, resulting in total net assets of \$8,294,350.

| | Capital Assets, Net of Depreciation | | Percentage Change |
|--------------------------------------|-------------------------------------|------------------|----------------------|
| | 2007 | 2006 | |
| Land | 334,795 | 294,795 | 14% |
| Buildings | 5,806,371 | 5,845,389 | -1% |
| Building improvements | 67,701 | 71,086 | -5% |
| Improvements other than buildings | 808,108 | 838,433 | -5% |
| Mobile equipment | 1,078,412 | 914,305 | 18% |
| Furniture and equipment | 384,866 | 296,694 | 30% |
| Leased property under capital leases | 14,095 | 17,826 | -21% |
| Total | 8,294,350 | 8,078,508 | 3% |

Debt Administration. At June 30, 2007, the District had \$2,805,354 in general obligation bonds and other long-term debt outstanding, of which \$ 271,307 is due within one year.

The District's bonds are non-rated.

| | Outstanding Debt | | Percentage Change |
|---|------------------|------------------|----------------------|
| | 2007 | 2006 | |
| General obligation bonds payable | - | 750,000 | -100% |
| Three mill notes payable | 1,363,000 | 1,450,000 | -6% |
| Shortfall notes payable | 274,245 | 444,150 | -38% |
| Obligations under capital leases | 7,784 | 15,217 | -49% |
| Obligations under energy efficiency lease | - | 41,502 | -100% |
| Qualified zone academy bonds payable | 1,000,000 | 1,000,000 | 0% |
| Compensated absences payable | 160,325 | 181,426 | -12% |
| Total | 2,805,354 | 3,882,295 | -28% |

CURRENT ISSUES

The Picayune School District is financially stable and is proud of the community support of its public schools. The District has committed itself to financial excellence for many years. The millage has reached the 55 mill limit, but it will not be exceeded. In addition, the District's system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

Latest enrollment figures indicate that student enrollment in the District should remain in the 3600-3700 range over the next few years. The budget for the next fiscal year has taken into account this enrollment both for funding and staffing needs.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Picayune School District, 706 Goodyear Blvd, Picayune, MS 39466.

BASIC FINANCIAL STATEMENTS

PICAYUNE SCHOOL DISTRICT
Statement of Net Assets
June 30, 2007

Exhibit A

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| Assets: | |
| Cash and cash equivalents | \$ 4,188,370 |
| Investments | 3,170,968 |
| Due from other governments | 2,354,278 |
| Inventories and prepaid items | 32,692 |
| Restricted assets | 207,817 |
| Capital assets, non-depreciable | |
| Land | 334,795 |
| Capital assets, net of accumulated depreciation: | |
| Buildings | 5,806,371 |
| Building improvements | 67,701 |
| Improvements other than buildings | 608,108 |
| Mobile equipment | 1,078,412 |
| Furniture and equipment | 384,868 |
| Leased property under capital leases | 14,095 |
| Total assets | <u>18,248,475</u> |
| Liabilities: | |
| Accounts payable and accrued liabilities | 407,776 |
| Unearned revenue | 13,966 |
| Interest payable on long-term liabilities | 20,250 |
| Long-term liabilities, due within one year: | |
| Capital related liabilities | 263,523 |
| Non-capital related liabilities | 7,784 |
| Long-term liabilities, due beyond one year: | |
| Capital related liabilities | 2,373,722 |
| Non-capital related liabilities | 160,325 |
| Total liabilities | <u>3,247,346</u> |
| Net Assets: | |
| Investments in capital assets, net of related debt | 5,649,321 |
| Restricted net assets: | |
| Expendable: | |
| School-based activities | 1,108,658 |
| Debt service | 400,279 |
| Unemployment benefits | 100,735 |
| Non-expendable: | |
| Sixteenth section | 35,632 |
| Unrestricted | 7,706,504 |
| Total net assets | <u>\$ 15,001,129</u> |

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

PICAYUNE SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2007

Exhibit B

| Functions/Programs | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets |
|--------------------------------------|----------------------|-------------------------|--|---|
| | Expenses | Charges For Services | Operating Grants and Contributions | |
| Primary Government: | | | | |
| Governmental Activities: | | | | |
| Instruction | \$ 17,362,323 | 356,340 | 3,504,730 | \$ (13,501,253) |
| Support services | 12,268,387 | 100,340 | 2,317,074 | (9,850,973) |
| Non-instructional | 1,913,482 | 425,741 | 1,514,855 | 27,114 |
| Sixteenth section | 58,395 | | | (58,395) |
| Interest on long-term liabilities | 180,418 | | | (180,418) |
| Total governmental activities | \$ 31,783,005 | 882,421 | 7,336,659 | (23,563,925) |

General Revenues:

| | |
|--|-------------------|
| Taxes: | |
| General purpose levies | 6,164,974 |
| Debt purpose levies | 1,110,167 |
| Unrestricted grants and contributions: | |
| State | 15,851,668 |
| Federal | 347,247 |
| Unrestricted investment earnings | 262,205 |
| Sixteenth section sources | 158,904 |
| Other | 1,525,134 |
| Total General Revenues | 25,420,319 |

Change in Net Assets

| | |
|--|-----------|
| | 1,856,394 |
|--|-----------|

Net Assets - Beginning

| | |
|--|------------|
| | 13,211,122 |
|--|------------|

Prior Period Adjustments

| | |
|--|----------|
| | (66,387) |
|--|----------|

Net Assets - Beginning - Restated

| | |
|--|------------|
| | 13,144,735 |
|--|------------|

Net Assets - Ending

| | |
|-----------|-------------------|
| \$ | 15,001,129 |
|-----------|-------------------|

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

Exhibit C

| | Major Funds | | | | Total Governmental Funds |
|--|---------------------|--------------------------|----------------------------------|--------------------------------|--------------------------------|
| | General Fund | Title I Basic Fund | Disaster Relief Grant Fund | Other Governmental Funds | |
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 2,624,794 | 97,185 | - | 1,637,359 | \$ 4,359,338 |
| Cash with fiscal agents | | | | 1,217 | 1,217 |
| Investments | 3,000,000 | | | 206,600 | 3,206,600 |
| Due from other governments | 496,075 | 168,933 | 1,021,623 | 667,190 | 2,353,821 |
| Due from other funds | 1,831,485 | | | 32,692 | 1,831,485 |
| Inventories | | | | | 32,692 |
| Total assets | 7,952,354 | 266,118 | 1,021,623 | 2,545,058 | 11,785,153 |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Accounts payable and accrued liabilities | 192,869 | 97,165 | | 117,722 | 407,776 |
| Due to other funds | | 168,933 | 1,021,623 | 640,472 | 1,831,028 |
| Deferred revenue | | | | 13,966 | 13,966 |
| Total liabilities | 192,869 | 266,118 | 1,021,623 | 772,160 | 2,252,770 |
| Fund Balances: | | | | | |
| Reserved for: | | | | | |
| Inventory | | | | 32,692 | 32,692 |
| Debt service | | | | 420,529 | 420,529 |
| Unemployment benefits | | | | 100,735 | 100,735 |
| Permanent fund purposes | | | | 35,632 | 35,632 |
| Unreserved: | | | | | |
| Undesignated, reported in: | | | | | |
| General Fund | 7,759,485 | | | 1,183,310 | 7,759,485 |
| Special Revenue Funds | | | | | 1,183,310 |
| Total fund balances | 7,759,485 | - | - | 1,772,898 | 9,532,383 |
| Total liabilities and fund balances | \$ 7,952,354 | \$ 266,118 | \$ 1,021,623 | \$ 2,545,058 | \$ 11,785,153 |

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

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

Exhibit C-1

| | <u>Amount</u> |
|---|----------------------|
| Total fund balance - governmental funds | \$ 9,532,383 |
| Amount reported for governmental activities in the statement of net assets are different because: | |
| 1. Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$ 5,586,118. | 8,294,350 |
| 2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. | (2,805,354) |
| 3. Governmental funds recognize interest on long-term debt when it becomes due, however, the Statement of Net Assets recognizes interest as it accrues. | (20,250) |
| Total net assets - governmental activities | <u>\$ 15,001,129</u> |

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

Exhibit D

| | Major Funds | | | | Total Governmental Funds |
|---|---------------------|--------------------|----------------------|--------------------------|--------------------------|
| | General Fund | Title I Basic Fund | Disaster Relief Fund | Other Governmental Funds | |
| Revenues: | | | | | |
| Local sources | \$ 8,960,790 | | | 2,045,592 | \$ 9,006,382 |
| State sources | 16,013,974 | | | 710,546 | 16,724,520 |
| Federal sources | 196,506 | 1,488,911 | 267,163 | 4,848,473 | 6,811,053 |
| Sixteenth section sources | | | | 171,393 | 171,393 |
| Total revenues | 23,171,270 | 1,488,911 | 267,163 | 7,776,004 | 32,713,348 |
| Expenditures: | | | | | |
| Instruction | 12,954,883 | 978,862 | 1,372 | 3,342,575 | 17,277,692 |
| Support services | 8,483,537 | 520,049 | 1,144,939 | 2,348,627 | 12,497,152 |
| Noninstructional services | | | | 1,860,849 | 1,860,849 |
| Sixteenth section | | | | 58,396 | 58,396 |
| Facilities acquisition and construction | 155,000 | | | 155,000 | 155,000 |
| Debt service: | | | | | |
| Principal | 48,935 | | | 1,006,905 | 1,055,840 |
| Interest | 1,165 | | | 104,258 | 105,423 |
| Total expenditures | 21,643,520 | 1,498,911 | 1,146,311 | 8,721,610 | 33,010,352 |
| Excess (deficiency) of revenues over expenditures | 1,527,750 | - | (879,148) | (945,606) | (297,004) |
| Other Financing Sources (Uses) | | | | | |
| Insurance loss recoveries | 2,174 | | | 843,188 | 845,362 |
| Sale of transportation equipment | 1,776 | | | | 1,776 |
| Sale of other property | | | | 149 | 149 |
| Operating transfers in | | | | 1,203,316 | 1,203,316 |
| Other financing sources | | | | 80,690 | 80,690 |
| Operating transfers out | (977,944) | | | (225,372) | (1,203,316) |
| Payment for qualified zone academy bonds | | | | (80,690) | (80,690) |
| Total other financing sources (uses) | (973,994) | | 843,188 | 978,093 | 847,287 |
| Net change in fund balances | 553,756 | | (35,960) | 32,487 | 550,283 |
| Fund Balances: | | | | | |
| July 1, 2006 | 7,216,672 | | 35,960 | 1,768,222 | 9,040,854 |
| Prior period adjustments | (10,943) | | | (55,448) | (66,391) |
| July 1, 2006, as restated | 7,205,729 | | 35,960 | 1,732,774 | 6,974,463 |
| Increase/(Decrease) in reserve for inventory | | | | 7,637 | 7,637 |
| June 30, 2007 | \$ 7,759,485 | | | 1,772,898 | \$ 9,532,383 |

PICAYUNE 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

| | <u>Amount</u> |
|--|-------------------------|
| Net change in fund balances - governmental funds | \$ 550,283 |
| 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 \$ 733,935 and the depreciation expense amounted to (\$ 483,912). | 250,023 |
| 2. The issuance of long-term debt provides current financial resources to governmental funds, but the issuance increases long-term liabilities for governmental activities. | - |
| 3. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of activity. | 1,055,840 |
| 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. | 5,695 |
| 5. Gains and losses on the sale or disposals of assets not reported in the governmental funds, but are reported in the statement of activities, net of proceeds. | (34,185) |
| 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 statement of activities. | 7,637 |
| 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 | 21,101 |
| Change in net assets of governmental activities | <u>\$ 1,856,394</u> |

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

PICAYUNE SCHOOL DISTRICT
Statement of Fiduciary Net Assets
June 30, 2007

Exhibit E

| | <u>Private-Purpose Trust Funds</u> | <u>Agency Funds</u> |
|--|--|-------------------------|
| Assets | | |
| Cash and cash equivalents | 66,801 | 1,517,207 |
| Investments | 18,574 | |
| Total Assets | <u>85,375</u> | <u>1,517,207</u> |
| Liabilities | | |
| Accounts payable and accrued liabilities | 1,251 | 1,461,759 |
| Due to other funds | 457 | - |
| Due to student clubs | - | 55,448 |
| Total Liabilities | <u>1,708</u> | <u>1,517,207</u> |
| Net Assets | | |
| Reserved for endowments | 83,667 | |
| Total Net Assets | <u>83,667</u> | |

PICAYUNE SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets
For the year ended June 30, 2007

Exhibit F

| | <u>Private-Purpose Trust Funds</u> |
|--|--|
| Additions | |
| Interest on Investments | \$ 3,485 |
| Contributions and donations from private sources | 11,187 |
| Total Additions | <u>14,672</u> |
| Deductions | |
| Scholarship awarded | 5,200 |
| Community services | 7,270 |
| Total Deductions | <u>12,470</u> |
| Change in net assets | <u>2,202</u> |
| Net Assets | |
| July 1, 2006 | <u>81,465</u> |
| June 30, 2007 | <u>\$ 83,667</u> |

NOTES TO FINANCIAL STATEMENTS

PICAYUNE 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 Picayune 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.

B. Basis of Presentation.

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

Government - Wide Financial Statements:

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

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

Fund Financial Statements:

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

PICAYUNE SCHOOL DISTRICT

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

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:

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

Title I fund – This fund is used to account for federal funds related to the Title I education program for children.

Disaster relief grant fund – This fund is used to account for federal funds related to Hurricane Katrina.

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.

PICAYUNE SCHOOL DISTRICT

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

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

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

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

D. Account Classifications.

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

E. Encumbrances.

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

F. Cash and Cash Equivalents.

The school district deposits excess funds in 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 deposits with original maturities of three months or less. Cash and cash equivalents are valued at cost.

G. Investments.

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

PICAYUNE SCHOOL DISTRICT

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

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

Investments are reported at fair value.

H. Inventories and Prepaid Items.

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

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

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

I. Capital Assets.

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

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

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

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

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

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

J. Long-term liabilities.

PICAYUNE SCHOOL DISTRICT

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

limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments. In the government-wide Statement of Net Assets, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column. See Note 5 for details.

K. Interfund Transactions and Balances.

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

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

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

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

L. Equity Classifications.

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

PICAYUNE SCHOOL DISTRICT

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

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

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

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

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

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

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

M. Property Taxes.

Ad valorem property taxes are levied by the governing authorities of the 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.

PICAYUNE SCHOOL DISTRICT

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

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

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

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

Cash and Cash Equivalents.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds 4,359,338, and \$ 1,584,008, respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and cash equivalents \$ 4,188,370 and Restricted Assets - \$ 207,817. The Restricted Assets of \$ 207,817 represent the cash and investments of the QZAB Debt Service Fund of \$ 1,217 and \$ 170,968, respectively, and the investments of the sixteenth section principal fund (Permanent Fund) of \$ 35,632, which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$ 6,705,015.

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 \$ 6,705,015 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 \$ 1,217.

Investments.

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

PICAYUNE 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> | <u>Standard & Poor's Rating</u> |
|--|----------------------------------|----------------------------|---|
| Federal National Mortgage Association Certificates of Deposit (nonnegotiable) | less than 1 | \$ 170,968 | Not Rated |
| Government Funds | 1 | 3,035,632 | Not Rated |
| Private-purpose Trust Funds | 1 to 5 | 18,574 | Not Rated |
| | | <u>3,054,206</u> | |
| Total Investments | | <u>\$ 3,225,174</u> | |

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

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

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

Concentration of Credit Risk. Disclosures of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2007, the district had the following investments which comprised more than 5 percent of net investments.

(3) **Interfund Transactions and Balances.**

The following is a summary of interfund transactions and balances:

A. **Due From / To Other Funds.**

PICAYUNE SCHOOL DISTRICT

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

| | <u>Due From</u> | <u>Due To</u> |
|--------------------------|------------------|------------------|
| Governmental Funds: | | |
| General fund | \$ 1,831,485 | - |
| Title I Basic fund | - | 168,933 |
| Disaster relief fund | - | 1,021,623 |
| Other governmental funds | - | 640,472 |
| Fiduciary funds | - | 457 |
| Total Funds | <u>1,831,485</u> | <u>1,831,485</u> |

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

B. Transfers In / Out.

| | <u>Transfers In</u> | <u>Transfers Out</u> |
|--------------------------|-------------------------|--------------------------|
| Governmental Funds: | | |
| General fund | \$ - | 977,944 |
| Other governmental funds | 1,203,316 | 225,372 |
| Total Funds | <u>1,203,316</u> | <u>1,203,316</u> |

Transfers are made monthly from the General Fund to other funds for operations as federal and state funding for those funds is not sufficient to sustain those funds.

(4) Capital Assets.

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

PICAYUNE 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 |
|--|---------------------|----------------|---------------|---------------------------|-------------|----------------------|
| Non-depreciable capital assets: | | | | | | |
| Land | \$ 294,795 | 40,000 | | | | \$ 334,795 |
| Total non-depreciable capital assets | 294,795 | 40,000 | - | - | - | 334,795 |
| Depreciable capital assets: | | | | | | |
| Buildings | 8,876,371 | 115,000 | | | | 8,991,371 |
| Building improvements | 84,626 | | | | | 84,626 |
| Improvements other than buildings | 758,126 | | | | | 758,126 |
| Mobile equipment | 2,590,048 | 348,910 | 174,875 | | | 2,764,083 |
| Furniture and equipment | 911,074 | 230,025 | 222,651 | | | 918,448 |
| Leased property under capital leases | 29,019 | | | | | 29,019 |
| Total depreciable capital assets | 13,249,264 | 693,935 | 397,526 | - | - | 13,545,673 |
| Less accumulated depreciation for: | | | | | | |
| Buildings | 3,031,002 | 154,002 | | | (4) | 3,185,000 |
| Building improvements | 13,540 | 3,385 | | | | 16,925 |
| Improvements other than buildings | 119,693 | 30,325 | | | | 150,018 |
| Mobile equipment | 1,675,743 | 167,316 | 157,388 | | | 1,685,671 |
| Furniture and equipment | 614,380 | 125,153 | 205,953 | | | 533,580 |
| Leased property under capital leases | 11,193 | 3,731 | | | - | 14,924 |
| Total accumulated depreciation | 5,465,551 | 483,912 | 363,341 | - | (4) | 5,586,118 |
| Total depreciable capital assets, net | 7,783,713 | 210,023 | 34,185 | - | 4 | 7,959,555 |
| Governmental activities capital assets, net | \$ 8,078,506 | 250,023 | 34,185 | - | 4 | \$ 8,294,350 |

Depreciation expense was charged to the following governmental functions:

| | Amount |
|-----------------------------------|-------------------|
| Instruction | \$ 170,293 |
| Support Services | 260,774 |
| Non-instructional | 52,845 |
| Total depreciation expense | \$ 483,912 |

PICAYUNE SCHOOL DISTRICT

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

(5) Long-term Liabilities.

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

| | <u>Balance 7/1/2006</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance 6/30/2007</u> | <u>Amounts due within one year</u> |
|--|-----------------------------|------------------|-------------------|------------------------------|--|
| A. General obligation bonds payable | \$ 750,000 | | 750,000 | - | - |
| B. Three mill notes payable | 1,450,000 | | 87,000 | 1,363,000 | 91,000 |
| C. Shortfall notes payable | 444,150 | | 169,905 | 274,245 | 172,523 |
| D. Obligations under capital leases | 15,217 | | 7,433 | 7,784 | 7,784 |
| E. Obligations under energy efficiency lease | 41,502 | | 41,502 | - | - |
| F. Qualified zone academy bonds payable | 1,000,000 | | | 1,000,000 | - |
| G. Compensated absences payable | 181,426 | | 21,101 | 160,325 | - |
| Total | \$ 3,882,295 | - | 1,076,941 | 2,805,354 | 271,307 |

A. General obligation bonds payable.

This debt was retired during the fiscal year.

B. Three mill notes payable.

Debt currently outstanding is as follows:

| <u>Description</u> | <u>Interest Rate</u> | <u>Issue Date</u> | <u>Maturity Date</u> | <u>Amount Issued</u> | <u>Amount Outstanding</u> |
|--------------------|--------------------------|-----------------------|--------------------------|--------------------------|-------------------------------|
| Three mill note | 2.7 - 4.2% | 8/1/2004 | 8/1/2018 | 1,500,000 | 1,363,000 |
| Total | | | | \$ 1,500,000 | \$ 1,363,000 |

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

PICAYUNE SCHOOL DISTRICT

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

| <u>Year Ending June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------------|---------------------|-------------------|---------------------|
| 2008 | 91,000 | 50,996 | 141,996 |
| 2009 | 95,000 | 48,040 | 143,040 |
| 2010 | 99,000 | 44,741 | 143,741 |
| 2011 | 104,000 | 41,136 | 145,136 |
| 2012 | 109,000 | 37,220 | 146,220 |
| 2013-2017 | 624,000 | 116,208 | 740,208 |
| 2018-2019 | 241,000 | 9,141 | 250,141 |
| Total | \$ 1,363,000 | \$ 347,482 | \$ 1,710,482 |

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

C. Shortfall notes payable.

Debt currently outstanding is as follows:

| <u>Description</u> | <u>Interest Rate</u> | <u>Issue Date</u> | <u>Maturity Date</u> | <u>Amount Issued</u> | <u>Amount Outstanding</u> |
|---------------------|--------------------------|-----------------------|--------------------------|--------------------------|-------------------------------|
| 2004 shortfall note | 3.84% | 11/9/2004 | 11/9/2007 | \$ 204,649 | \$ 70,802 |
| 2005 shortfall note | 4.98% | 9/19/2005 | 9/19/2008 | \$ 305,164 | \$ 203,443 |
| Total | | | | \$ 509,813 | \$ 274,245 |

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

| <u>Year Ending June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------------|-------------------|------------------|-------------------|
| 2008 | 172,523 | 12,850 | 185,373 |
| 2009 | 101,722 | 5,080 | 106,802 |
| Total | \$ 274,245 | \$ 17,930 | \$ 292,175 |

This debt will be retired from the Shortfall Note Retirement Fund.

D. Obligations under capital lease.

The school district has entered into a lease agreement that qualifies as a capital lease for accounting purposes. Leased property under this lease is composed of a mower.

The various options available to the lessee for this lease are as follows:

PICAYUNE SCHOOL DISTRICT

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

1. Upon payment of the lease in full, title to the equipment will be vested permanently in the school district's name, which will fulfill the purchase option price.
2. Prior to fulfillment of lease term, the school district may exercise the option to purchase the equipment by giving a thirty-day notice and payment of the related purchase option price.

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

| Year Ending June 30 | Principal | Interest and Maintenance Charges | Total |
|------------------------|-----------------|--|--------------|
| 2008 | \$ 7,784 | 167 | 7,951 |
| Total | <u>\$ 7,784</u> | <u>167</u> | <u>7,951</u> |

This debt will be retired from the District Maintenance Fund.

E. Obligations under energy efficiency lease.

This debt was retired during the fiscal year.

F. Qualified zone academy bonds payable.

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

| Description | Interest Rate | Issue Date | Maturity Date | Amount Issued | Amount Outstanding |
|-------------------|------------------|---------------|------------------|---------------------|-----------------------|
| QZAB, Series 2004 | 0.00% | 8/12/2004 | 7/30/2014 | \$ 1,000,000 | 1,000,000 |
| Total | | | | <u>\$ 1,000,000</u> | <u>1,000,000</u> |

G. Compensated absences payable.

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

(6) Defined Benefit Pension Plan.

Plan Description. The school district contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing, multiple-employer, defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be

PICAYUNE SCHOOL DISTRICT

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

amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, 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 11.3% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2007, 2006, and 2005 were \$ 2,019,807, \$ 1,855,043 and \$ 1,616,147, respectively, which equaled the required contributions for each year.

(7) Other Commitments.

Operating leases:

The school district has several operating leases for the following:

1. Postage meter at Central Office
2. Postage meter at Picayune Memorial High School
3. Postage meter at Picayune Junior High.
4. Postage meter at Roseland Park Elementary School.

Lease expenditures for the year ended June 30, 2007, amounted to \$ 3,479. Future lease payments for these leases are as follows:

| <u>Year Ending June 30</u> | <u>Amount</u> |
|--------------------------------|---------------|
| 2008 | 2,547 |
| 2009 | 112 |
| Total | <u>2,659</u> |

(8) 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.

PICAYUNE SCHOOL DISTRICT

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

| <u>Year Ending June 30</u> | <u>Amount</u> |
|--------------------------------|---------------------|
| 2008 | 104,633 |
| 2009 | 108,558 |
| 2010 | 84,057 |
| 2011 | 80,855 |
| 2012 | 80,855 |
| 2013-2017 | 400,998 |
| 2018-2022 | 393,744 |
| 2023-2027 | 393,744 |
| 2028-2032 | 363,368 |
| Thereafter | 439,299 |
| Total | \$ 2,450,111 |

(9) **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>(66,387)</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. | \$ (10,943) |
| Other governmental funds | Adjustment related to prior year transaction. | (55,448) |
| | Total | \$ (66,391) |

(10) **Risk Management.**

The school district is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The

PICAYUNE SCHOOL DISTRICT

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

district carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) **Qualified Zone Academy Bonds.**

Section 226 of the Taxpayer Relief Act of 1997 (Public Law 105-34) provides for a source of capital at no or nominal interest rates for costs incurred by certain public schools in connection with the establishment of special academic programs from kindergarten through secondary school, in partnership with the business community. The school district, in agreement with Trustmark National Bank, has entered into such an arrangement dated January 15, 2005.

This agreement establishes a method of repayment for a qualified interest-free debt instrument. The agreement requires the school district to deposit funds annually into a sinking fund account on or before October 16 of each year for ten years with Trustmark National Bank. The amount accumulated in the sinking fund at the end of the ten-year period will be sufficient to retire the debt. The following schedule reports the yearly deposits to be made to the sinking fund by the school district.

| <u>Year Ending June 30</u> | <u>Amount</u> |
|--------------------------------|--------------------------|
| 2008 | 80,690 |
| 2009 | 80,690 |
| 2010 | 80,690 |
| 2011 | 80,690 |
| 2012 | 80,690 |
| 2013-2017 | <u>242,070</u> |
| Total | <u>\$ 645,520</u> |

REQUIRED SUPPLEMENTARY INFORMATION

PICAYUNE SCHOOL DISTRICT
 Budgetary Comparison Schedule
 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 |
| Revenues: | | | | | |
| Local sources | 6,563,891 | 6,960,790 | 6,960,790 | 396,899 | - |
| State sources | 16,104,357 | 16,013,974 | 16,013,974 | (90,383) | - |
| Federal sources | 98,252 | 196,506 | 196,506 | 98,254 | - |
| Total Revenues | 22,766,500 | 23,171,270 | 23,171,270 | 404,770 | - |
| Expenditures: | | | | | |
| Instruction | 13,330,228 | 12,954,883 | 12,954,883 | 375,345 | - |
| Support services | 8,364,598 | 8,482,900 | 8,483,537 | (118,304) | (637) |
| Facilities acquisition and construction | - | 155,637 | 155,000 | (155,637) | 637 |
| Debt service: | | | | | |
| Principal | 48,963 | 48,935 | 48,935 | 28 | - |
| Interest | 1,137 | 1,165 | 1,165 | (28) | - |
| Total Expenditures | 21,744,924 | 21,643,520 | 21,643,520 | 101,404 | - |
| Excess (deficiency) of revenues over expenditures | 1,021,576 | 1,527,750 | 1,527,750 | 506,174 | - |
| Other Financing Sources (Uses) | | | | | |
| Insurance loss recoveries | 200,000 | 2,174 | 2,174 | (197,826) | - |
| Sale of transportation equipment | 2,500 | 1,776 | 1,776 | (724) | - |
| Operating transfers in | 3,141,111 | 2,872,633 | 2,872,633 | (268,478) | - |
| Operating transfers out | (4,395,042) | (3,850,577) | (3,850,577) | 544,465 | - |
| Total Other Financing Sources (Uses) | (1,051,431) | (973,894) | (973,894) | 77,437 | - |
| Net change in fund balances | (29,855) | 553,756 | 553,756 | 583,611 | - |
| Fund Balances: | | | | | |
| July 1, 2006 | 4,205,000 | 7,216,673 | 7,216,672 | 3,011,673 | (1) |
| Prior period adjustments | - | 213,679 | (10,943) | 213,679 | (224,622) |
| July 1, 2006, as restated | 4,205,000 | 7,430,352 | 7,205,729 | 3,225,352 | (224,623) |
| June 30, 2007 | 4,175,145 | 7,984,108 | 7,759,485 | 3,808,963 | (224,623) |

PICAYUNE SCHOOL DISTRICT
 Budgetary Comparison Schedule
 Title I Basic Fund
 For the Year Ended June 30, 2007

Schedule 2

| | Budgeted Amounts | | Actual (GAAP Basis) | Variances Positive (Negative) | |
|--|------------------|-----------|------------------------|----------------------------------|--------------------|
| | Original | Final | | Original to Final | Final to Actual |
| Revenues: | | | | | |
| Federal sources | 2,141,938 | 1,498,911 | 1,498,911 | (643,027) | - |
| Total Revenues | 2,141,938 | 1,498,911 | 1,498,911 | (643,027) | - |
| Expenditures: | | | | | |
| Instruction | 1,421,118 | 978,882 | 978,882 | 442,254 | - |
| Support services | 668,593 | 520,049 | 520,049 | 148,544 | - |
| Total Expenditures | 2,087,709 | 1,498,911 | 1,498,911 | 588,798 | - |
| Excess (deficiency) of revenues over expenditures | 54,229 | - | - | (54,229) | - |
| Other Financing Sources (Uses) | | | | | |
| Total Other Financing Sources (Uses) | - | - | - | - | - |
| Net change in fund balances | 54,229 | - | - | (54,229) | - |
| Fund Balances: | | | | | |
| July 1, 2006 | - | - | - | - | - |
| Prior period adjustments | - | - | - | - | - |
| July 1, 2006, as restated | - | - | - | - | - |
| June 30, 2007 | 54,229 | - | - | (54,229) | - |

PICAYUNE SCHOOL DISTRICT
 Budgetary Comparison Schedule
 Disaster Relief Grant Fund
 For the Year Ended June 30, 2007

Schedule 3

| | Budgeted Amounts | | Actual (GAAP Basis) | Variances Positive (Negative) | |
|--|------------------|-----------|------------------------|----------------------------------|--------------------|
| | Original | Final | | Original to Final | Final to Actual |
| Revenues: | | | | | |
| Federal sources | 95,000 | 267,163 | 267,163 | 172,163 | - |
| Total Revenues | 95,000 | 267,163 | 267,163 | 172,163 | - |
| Expenditures: | | | | | |
| Instruction | - | 1,372 | 1,372 | (1,372) | - |
| Support services | 1,200,000 | 1,144,939 | 1,144,939 | 55,061 | - |
| Total Expenditures | 1,200,000 | 1,146,311 | 1,146,311 | 53,689 | - |
| Excess (deficiency) of revenues over expenditures | (1,105,000) | (879,148) | (879,148) | 225,852 | - |
| Other Financing Sources (Uses) | | | | | |
| Insurance loss recoveries | - | 843,188 | 843,188 | 843,188 | - |
| Operating transfers in | 1,015,351 | - | - | (1,015,351) | - |
| Total Other Financing Sources (Uses) | 1,015,351 | 843,188 | 843,188 | (172,163) | - |
| Net change in fund balances | (89,649) | (35,960) | (35,960) | 53,689 | - |
| Fund Balances: | | | | | |
| July 1, 2006 | - | 35,960 | 35,960 | 35,960 | - |
| Prior period adjustments | - | - | - | - | - |
| July 1, 2006, as restated | - | 35,960 | 35,960 | 35,960 | - |
| June 30, 2007 | (89,649) | - | - | 89,649 | - |

PICAYUNE SCHOOL DISTRICT

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

Budgetary Comparison Schedule

(1) **Basis of Presentation.**

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

(2) **Budget Amendments and Revisions.**

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

SUPPLEMENTAL INFORMATION

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

| Federal Grantor / Pass-through Grantor / Program Title | Catalog of Federal Domestic Assistance Number | Federal Expenditures |
|---|---|-------------------------|
| U.S. Department of Agriculture | | |
| Passed - through Mississippi Department of Education: | | |
| Non-cash assistance: | | |
| Food donation | 10.550 | \$ 103,396 |
| Child Nutrition Cluster: | | |
| School breakfast program | 10.553 | 364,732 |
| National school lunch program | 10.555 | 1,099,060 |
| Summer food service program for children | 10.559 | 26,512 |
| Total child nutrition cluster | | 1,490,304 |
| Passed-through Picayune Board of Supervisors | | |
| Schools and roads - grants to state | 10.665 | 26,468 |
| <i>Total U.S. Department of Agriculture</i> | | 1,620,168 |
| U.S. Department of Defense | | |
| Direct program: | | |
| Reserve Officers' Training Corps | 12.XXX | 60,363 |
| <i>Total U.S. Department of Defense</i> | | 60,363 |
| Federal Communication Commission | | |
| Administered -through Universal Service Administrative Company: | | |
| The schools and libraries program of the Universal Service Fund | 32.XXX | 89,847 |
| <i>Total Federal Communication Commission</i> | | 89,847 |
| Passed-through Mississippi Department of Education: | | |
| Title I grants to local educational agencies | 84.010 | 1,581,824 |
| Vocational education - basic grants to states | 84.048 | 61,413 |
| Safe and drug-free schools and communities national programs | 84.184 | 85,932 |
| Safe and drug-free schools emergency response and crisis management | 84.184 E | 276,781 |
| Safe and drug-free schools and communities - state grants | 84.186 | 25,999 |
| Education for homeless children and youth | 84.196 | 24,964 |
| Eisenhower professional development state grants | 84.281 | 91,026 |
| State grants for innovative programs | 84.298 | 5,763 |
| Rural education | 84.356 | 73,199 |
| Improving teacher quality - state grants | 84.367 | 286,601 |
| <i>Total</i> | | 2,493,502 |
| Special education cluster: | | |
| Special education - grants to states | 84.027 | 706,617 |
| Special education - preschool grants | 84.173 | 45,872 |
| Total special education cluster | | 752,689 |
| Total Passed-through Mississippi Department of Education | | 3,248,191 |
| <i>Total U.S. Department of Education</i> | | 3,248,191 |
| U.S. Department of Health and Human Services | | |
| Passed-through the Administration for Children and Families, Department of Health and Human Services: | | |
| Head Start | 93.600 | 1,392,394 |
| Total | | 1,392,394 |
| Passed-through the Mississippi Department of Education: | | |
| Medical assistance program | 93.778 | 112,316 |
| Total passed-through Mississippi Department of Education | | 112,316 |
| <i>Total U.S. Department of Health and Human Services</i> | | 1,504,710 |
| U.S. Department of Homeland Security | | |
| Passed through the Mississippi Emergency Management Agency: | | |
| Disaster grants - public assistance (Presidentially declared disasters) | 97.036 | 267,163 |
| <i>Total Department of Homeland Security</i> | | 267,163 |
| Total for All Federal Awards | | \$ 6,768,440 |

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.

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

| Expenditures | Total | Instruction and Other Student Instructional Expenditures | | |
|------------------------------|---------------|--|-----------------------|-----------|
| | | General Administration | School Administration | Other |
| Salaries and fringe benefits | \$ 24,072,744 | 731,750 | 1,807,547 | 3,460,397 |
| Other | 6,937,608 | 533,869 | 68,776 | 6,010,233 |
| Total | 33,010,352 | 1,265,619 | 1,876,323 | 9,470,630 |
| Total number of students * | | 3,605 | | |
| Cost per student | | \$ 9,157 | | |
| | | 351 | 520 | 2,627 |

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 INTERNAL CONTROL AND COMPLIANCE

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*

September 12, 2008

Superintendent and School Board
Picayune School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Picayune School District as of and for the year ended June 30, 2007, which collectively comprise the Picayune School District's basic financial statements and have issued our report thereon dated September 12, 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
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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

September 12, 2008

Superintendent and School Board
Picayune School District

Compliance

We have audited the compliance of the Picayune 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 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, Picayune 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 Picayune 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 a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

Our consideration of 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**

September 12, 2008

Superintendent and School Board
Picayune School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Picayune School District as of and for the year ended June 30, 2007, which collectively comprise Picayune School District's basic financial statements and have issued our report thereon dated September 12, 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 \$ 76,755 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

PICAYUNE 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 | |
| | b. Special Education Cluster | |
| | CFDA # 84.027 | |
| | CFDA # 84.173 | |
| | c. Head Start | |
| | CFDA # 93.600 | |
| 8 . | The dollar threshold used to distinguish between type A and type B programs: | \$ 300,000 |
| 9 . | Auditee qualified as a low-risk auditee? | no |
| 10 . | Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in section ____ .315(b) of OMB Circular A-133? | yes |

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.

PICAYUNE SCHOOL DISTRICT

DEAN SHAW
Superintendent

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Director of Finance

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Assistant Superintendent

FRANK MCCARDLE
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AUDITEE'S SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

As required by Section ____ .315(b) of OMB Circular A-133, the Picayune School District has prepared and hereby submits the following summary schedule of prior audit findings as of June 30, 2007:

| <u>Finding</u> | <u>Status</u> |
|----------------|--------------------------|
| 2006-1 | Corrective action taken. |
| 2006-2 | Corrective action taken. |
| 2006-3 | Corrective action taken. |
| 2006-4 | Corrective action taken. |
| 2006-5 | Corrective action taken. |
| 2006-6 | Corrective action taken. |
| 2006-7 | Corrective action taken. |