



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

Richton School District

Audited Financial Statements

For the Year Ended June 30, 2007

Suzanne E. Smith, CPA



RICHTON SCHOOL DISTRICT

TABLE OF CONTENTS

FINANCIAL AUDIT REPORT	1
Independent Auditor's Report on the Basic Financial Statements and Supplementary Information	3
MANAGEMENT'S DISCUSSION AND ANALYSIS	5
FINANCIAL STATEMENTS	15
Statement of Net Assets	17
Statement of Activities	18
Balance Sheet - Governmental Funds	19
Reconciliation of Governmental Funds Balance Sheet to Statement of Net Assets	20
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	21
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	22
Statement of Fiduciary Assets and Liabilities	23
Notes to the Financial Statements	25
REQUIREMENT SUPPLEMENTARY INFORMATION	37
Budgetary Comparison Schedule - General Fund	39
Budgetary Comparison Schedule - Sixteenth Section Interest Fund	40
Notes to the Required Supplementary Information	41
SUPPLEMENTAL INFORMATION	43
Schedule of Expenditures of Federal Awards	45
Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds	47
REPORTS ON INTERNAL CONTROL AND COMPLIANCE	49
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 <i>Government Auditing Standards</i>	51
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	53
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS	55
Independent Auditor's Report on Compliance with State Laws and Regulations	57
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	61
AUDITEE'S CORRECTIVE ACTION PLAN	67



RICHTON SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

RIGHTON SCHOOL DISTRICT

(This page left blank intentionally)

Suzanne E. Smith
Certified Public Accountant
P.O. Box 7124
Meridian, MS 39304
Phone: (601) 482-7966

INDEPENDENT AUDITOR'S REPORT

Superintendent and School Board
Richton School District

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

I conducted my 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 I 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my 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 Richton 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*, I have also issued my report dated September 12, 2008 on my consideration of the Richton School District's internal control over financial reporting and on my 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 my 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 my audit.

The Management's Discussion and Analysis on Pages 5 through 13 and the Budgetary Comparison Schedule and related notes on pages 37 through 41 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Richton 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 as required by the Mississippi State Auditor's Office. Such information has been subjected to the auditing procedures

applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Suzanne F. Smith". The signature is written in a cursive style with a large initial 'S'.

Meridian, MS
September 12, 2008

RIGHTON SCHOOL DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

RIGHTON SCHOOL DISTRICT

(This page left blank intentionally)

**Richton School District
Management Discussion and Analysis
For the Year Ended June 30, 2007**

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

FINANCIAL HIGHLIGHTS

- Total net assets decreased \$194,401, which represents a 6.2% decrease from the fiscal year 2006.
- General revenues accounted for \$4,397,824 in revenue, or 79% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$1,167,080 or 21% of total revenues.
- The District had \$5,758,620 in expenses; only \$1,167,080 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$4,397,824 were adequate to provide for these programs.
- Among major funds, the General Fund had \$4,152,010 in revenues and \$4,344,157 in expenditures. The General Fund's fund balance decreased \$237,758 over the prior year.
- Capital assets, net of accumulated depreciation, increased by \$509,183.
- Long-term debt decreased by \$180,710.

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 services, interest on long-term liabilities, and other debt service expenditures.

The government-wide financial statements can be found in this report.

**Richton School District
Management Discussion and Analysis
For the Year Ended June 30, 2007**

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 year. Such information may be useful in evaluating the District's current financing requirements. Governmental funds are reported using modified accrual basis of accounting. This method of accounting measures cash and other assets that can be easily converted to cash. The Governmental Funds Statements provide a detailed short-term view of the School District's operations.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are provided as Exhibit C-1 and Exhibit D-1 of the financial statements.

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

The basic governmental fund financial statements can be found in this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The School District is responsible for ensuring that the assets reported in these funds are presented in a separate statement of fiduciary net assets shown as Exhibit E of the financial statements.

Notes to the financial statements. The notes provide additional information that is essential to have a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found following Exhibit E of the financial statements.

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major special revenue fund. This required supplementary information can be found following the notes to the financial statements.

Additionally, a schedule of expenditures of federal awards is required by OMB Circular A-133, and a schedule of instructional, administrative and other expenditures for governmental funds can be found in the report sections entitled Required Supplementary Information and Supplementary Information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of a government's financial position. In the case of the Richton School District, assets exceeded liabilities by \$2,909,636 as of June 30, 2007.

**Richton School District
Management Discussion and Analysis
For the Year Ended June 30, 2007**

The District's net assets reflects its investment in capital assets (e.g. land, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment, and leased property under capital lease), 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.

	2007	2006	% Change
Assets			
Current assets	\$ 1,149,192	\$ 1,731,070	-33.6%
Capital assets, net	<u>3,900,010</u>	<u>3,390,827</u>	15.0%
Total Assets	<u>5,049,202</u>	<u>5,121,897</u>	-1.4%
Liabilities			
Current liabilities	\$ 804,026	\$ 501,610	60.3%
Long-term liabilities	<u>1,335,540</u>	<u>1,516,250</u>	-11.9%
Total Liabilities	<u>2,139,566</u>	<u>2,017,860</u>	6.0%
Net Assets:			
Invested in capital assets, net of related debt	\$ 2,608,961	\$ 1,922,427	35.7%
Restricted	31,847	677,850	-95.3%
Unrestricted	<u>268,828</u>	<u>503,760</u>	-46.6%
Total Net Assets	<u>\$ 2,909,636</u>	<u>\$ 3,104,037</u>	-6.3%

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

- The reduction of cash and investments necessary because of the excess expenditures over revenues in the general fund. These expenditures were for general operating purposes.
- The payment or net reduction of long-term liabilities in the amount of \$180,710.
- The addition to Construction in progress of \$629,150 and the completion of the Richton High School Gym renovation and reclassification of this projects to another capital asset category.
- Current year depreciation expense charges of \$126,540.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2007 were \$5,564,904. The total cost of all programs and services was \$5,758,620. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2007 and 2006.

**Richton School District
Management Discussion and Analysis
For the Year Ended June 30, 2007**

Revenues

Program Revenues

Charges for Services	\$	232,407	\$	178,000	30.6%
Operating grants and contributions		934,673		1,086,164	-13.9%
Total Program Revenues		<u>1,167,080</u>		<u>1,264,164</u>	-7.7%

General Revenues

Property taxes	\$	625,347	\$	600,455	4.1%
Unrestricted grants and contributions		3,579,455		3,498,908	2.3%
Other general revenues		193,023		644,740	-70.1%
Total General Revenues		<u>4,397,825</u>		<u>4,744,103</u>	-7.3%

Total Revenues		<u>5,564,905</u>		<u>6,008,267</u>	-7.4%
-----------------------	--	------------------	--	------------------	-------

Expenses

Instruction	\$	3,578,396	\$	3,384,262	5.7%
Support Services		1,633,742		1,760,072	-7.2%
Non-instructional		437,632		385,487	13.5%
Sixteenth section		52,150		537	9611.4%
Interest on long-term liabilities		56,700		75,800	-25.2%
Total Expenses		<u>5,758,620</u>		<u>5,606,158</u>	2.6%

Increase(Decrease) in net assets	\$	<u>(193,715)</u>	\$	<u>402,109</u>	-148.2%
---	----	------------------	----	----------------	---------

Net Assets, July 1		3,104,037		2,701,928	14.9%
Prior Period Adjustments		(685)			100.0%
Net Assets, June 30	\$	<u>2,909,636</u>	\$	<u>3,104,037</u>	-6.3%

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

- Other General Revenues in the form of insurance loss recoveries decreased from the 2006 year. The 2006 insurance loss recoveries were a direct result of Hurricane Katrina losses.
- Charges for services increased by \$54,407 from the 2006 year. This was largely due to the 15% transfer of 16th section land timber sales as monies set aside to pay services for the care and upkeep of trust lands. Timber sales on sixteenth section timber lands increased Forestry Escrow Fund (special revenue fund) charges for services by \$17,457 from the previous year.
- Capital grants and contributions decreased by \$151,491. This decrease was due to an increase in technology-related grants from the federal government.
- Sixteenth section expenses for the improvement of forestry lands increased by \$51,613 from the 2006 year. These expenses were directly attributable to the improvement of these trust lands.
- Interest expense on long-term debt decreased by \$19,100 from the 2006 year.

Governmental activities. The following table presents the cost of major District functional activities: instruction, support services, non-instructional, interest on long-term debt, and other debt service expenditures. The table also shows each

**Richton School District
Management Discussion and Analysis
For the Year Ended June 30, 2007**

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 Net (Expense) Revenue	2006 Net (Expense) Revenue
Instruction	\$ 3,578,396	\$ 3,384,262	\$ (3,002,521)	\$ (2,736,122)
Support services	1,633,742	1,760,072	(1,450,524)	(1,465,434)
Non-instructional	437,632	385,487	(47,102)	(64,101)
Sixteenth section	52,150	537	(34,693)	(537)
Interest on long-term liabilities	56,700	75,800	(56,700)	(75,800)
Total Governmental Activities	\$ 5,758,620	\$ 5,606,158	\$ (4,591,540)	\$ (4,341,994)

- Net cost of governmental activities, (\$4,591,540) was financed by general revenue, which is made up of primarily property taxes (\$625,346), state revenue (\$3,523,313), and federal revenue (\$56,142).
- Investment earnings accounted for \$56,315 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 \$388,703, a decrease of \$893,075 from the previous year. \$78,400 or 20% 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 \$310,303 or 80% 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 decrease in fund balance in the General Fund for the fiscal year was \$237,758.

The Sixteenth Section Interest Fund fund balance increased by \$8,039. The RSD Renovation Fund fund balance decreased by \$622,161, due mainly to the issuance of a revenue anticipation note. The MAEP Debt Service Fund fund balance decreased by \$1,520.

Other Governmental Funds combined fund balances decreased by \$38,012 from the previous year.

**Richton School District
Management Discussion and Analysis
For the Year Ended June 30, 2007**

BUDGETARY HIGHLIGHTS

Historical data, tentative allocations of state and federal funds, legislative mandates, and anticipated needs were used to determine original budget amounts. Over the course of the year, the District revised the annual operating budget when changes in tentative allocations, estimates, legislative mandates, staffing studies, and current and anticipated needs arose.

At the time the original budget was prepared, only estimates were available for federal funding. Typically original budgets are prepared using prior year allocation awards as estimates. Once federal awards were known, budgets were amended to reflect the actual grant awards and expenditures.

A schedule showing the original and final budget amounts compared to the District's actual financial activity of the following funds are provided in this report as Required Supplementary Information.

General Fund
Sixteenth Section Interest Fund

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2007, the District's total capital assets were \$6,458,565, including land, buildings, building improvements, improvements other than buildings, mobile equipment, and furniture and equipment. This amount represents an increase of \$635,723 from the previous year. Total accumulated depreciation as of June 30, 2007, was \$2,558,555 and total depreciation expense for the year was \$126,540, resulting in total net capital assets of \$3,900,010.

	<u>Capital Net Assets, Net of Depreciation</u>		<u>Percentage</u>
	<u>2007</u>	<u>2006</u>	<u>Change</u>
Land	\$ 108,253	\$ 108,253	0.0%
Construction in progress	0	245,079	-100.0%
Buildings	2,532,386	2,597,672	-2.5%
Building improvements	856,744	0	100.0%
Improvements other than buildings	178,423	188,335	-5.3%
Mobile equipment	80,384	89,789	-10.5%
Furniture and equipment	43,452	50,315	-13.6%
Leased property under capital lease	100,368	111,384	-9.9%
Total	\$ 3,900,010	\$ 3,390,827	15.0%

Additional information about the District's capital assets can be found in Note 4 of the notes to the financial statements in this report.

Debt Administration. At June 30, 2007, the District had \$1,335,540 in long term debt, of which \$187,593 is due within one year. The following table shows general long-term debt balances for the year ending June 30, 2007, as compared to June 30, 2006.

**Richton School District
Management Discussion and Analysis
For the Year Ended June 30, 2007**

		<u>2007</u>		<u>2006</u>	Percentage Change
Limited obligation bonds payable	\$	675,000	\$	785,000	-14.0%
Three mill notes payable		516,000		561,000	-8.0%
Obligations under capital lease		100,049		122,400	-18.3%
Compensated absences		44,491		47,850	-7.0%
Total	\$	<u>1,335,540</u>	\$	<u>1,516,250</u>	-11.9%

Additional information on the District's long-term debt obligations can be found in Note 5 in the notes to the financial statements.

CURRENT ISSUES

The Richton School District is proud of the support of its schools by the Community of Richton, Mississippi. The district is committed to excellence in education, and this commitment shows in the progress of its students and teachers.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's office of Richton School District, Kyle Nobles, at 701 Elm Street, Richton, Mississippi 39476.

RIGHTON SCHOOL DISTRICT

(This page left blank intentionally)

RIGHTON SCHOOL DISTRICT

FINANCIAL STATEMENTS

RIGHTON SCHOOL DISTRICT

(This page left blank intentionally)

Richton School District
Statement of Net Assets
June 30, 2007

Exhibit A

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 902,672
Investments	10,000
Due from other governments	137,824
Inventories and prepaid items	73,857
Restricted assets	17,399
Other receivables	7,440
Capital assets, non-depreciable:	
Land	108,253
Capital assets, net of accumulated depreciation:	
Buildings	2,532,386
Building improvements	856,744
Improvements other than buildings	178,423
Mobile equipment	80,384
Furniture and equipment	43,452
Leased property under capital lease	100,368
Total assets	<u>5,049,202</u>
LIABILITIES	
Accounts payable and accrued liabilities	428,782
Deferred revenue	1,707
Revenue anticipation note payable	330,000
Interest due on long-term liabilities	43,537
Long-term liabilities (due within one year)	
Capital-related liabilities	185,368
Non-capital liabilities	2,225
Long-term liabilities (due beyond one year)	
Capital-related liabilities	1,105,681
Non-capital liabilities	42,266
Total liabilities	<u>2,139,566</u>
NET ASSETS	
Invested in capital assets, net of related debt	2,608,961
Restricted net assets	
Expendable:	
School-based activities	167,806
Debt service	103,353
Forestry improvements	47,792
Unemployment benefits	18,397
Capital improvements	(322,900)
Non-expendable:	
Sixteenth section	17,399
Unrestricted	268,828
Total net assets	<u>\$ 2,909,636</u>

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

Richton School District
Statement of Activities
For the Year Ended June 30, 2007

Exhibit B

Net (Expense)
Revenue and
Changes in
Net Assets

Functions/Programs	Expenses	Program Revenues			Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Instruction	\$ 3,578,396	99,124	476,751		\$ (3,002,521)
Support services	1,633,742		183,218		(1,450,524)
Noninstructional services	437,632	115,826	274,704		(47,102)
Sixteenth section	52,150	17,457			(34,693)
Interest on long-term debt	56,700		0		(56,700)
Total governmental activities	\$ 5,758,620	232,407	934,673	0	\$ (4,591,540)
General Revenues:					
Taxes:					
General purpose levies					594,099
Debt service levies					31,248
Unrestricted grants and contributions:					
State					3,523,313
Federal					56,142
Unrestricted investment earnings					56,315
Sixteenth section sources					129,713
Other					6,994
Total general revenues					4,397,824
Change in Net Assets					(193,716)
Net Assets - Beginning					3,104,037
Adjustments					(685)
Net Assets - Beginning - Restated					3,103,352
Net Assets - Ending					\$ 2,909,636

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

Richton School District
 Balance Sheet - Governmental Funds
 June 30, 2007

Exhibit C

	Major Funds					Total Governmental Funds
	General Fund	Sixteenth Section Interest Fund	RSD Renovation Fund	MAEP Debt Service Fund	Other Governmental Funds	
ASSETS						
Cash and cash equivalents	354,380	137,473	7,100	149,102	264,757	912,812
Investments	0	0	0	0	17,259	17,259
Due from other governments	55,000	0	0	0	82,824	137,824
Due from other funds	171,839	0	0	0	4,242	176,081
Inventory	0	0	0	0	10,362	10,362
Prepaid items	63,495	0	0	0	0	63,495
Total assets	\$644,714	137,473	7,100	149,102	379,444	1,317,833
LIABILITIES & FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities	331,395	36,911	0	0	60,476	428,782
Due to other funds	0	78,922	0	0	89,719	168,641
Tax anticipation notes payable	0	0	330,000	0	0	330,000
Unearned revenue	0	0	0	0	1,707	1,707
Total liabilities	331,395	115,833	330,000	0	151,902	929,130
Fund balances:						
Reserved for:						
Permanent fund purposes	0	0	0	0	17,399	17,399
Forestry improvements	0	0	0	0	47,792	47,792
Inventory	0	0	0	0	10,362	10,362
Ad valorem	5,968	0	0	0	0	5,968
Debt service	0	0	0	149,102	(2,212)	146,890
Unemployment	0	0	0	0	18,397	18,397
Prepaid items	63,495	0	0	0	0	63,495
Unreserved, reported in:						
General funds	243,856	0	0	0	0	243,856
Special revenue funds	0	21,640	(322,900)	0	135,804	(165,456)
Total fund balances	313,319	21,640	(322,900)	149,102	227,542	388,703
Total liabilities & fund balances	\$644,714	137,473	7,100	149,102	379,444	1,317,833

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

Richton School District
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Activities
June 30, 2007

Exhibit C-1

	<u>Amount</u>
Total fund balance - governmental funds	\$ 388,703

Amounts reported for governmental activities in the statement of net assets are different because:

1. Capital assets are used in governmental activities and are not financial resources and therefore are not reported in the governmental funds, net of accumulated depreciation of \$2,558,555. 3,900,010
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds. (1,335,540)
3. Governmental funds recognize interest on long-term debt when it becomes due; however, the Statement of Net Assets recognizes interest as it accrues. (43,537)

Total Net Assets - Governmental Activities	\$ <u>2,909,636</u>
--	---------------------

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

Richton School District
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2007

Exhibit D

	Major Funds					Total Governmental Funds
	General Fund	Sixteenth Section Interest Fund	RSD Renovation Fund	MAEP Debt Service Fund	Other Governmental Funds	
REVENUES						
Local sources	734,431	0	7,086	3,520	152,863	897,900
State sources	3,390,450	0	0	140,000	89,362	3,619,812
Federal sources	27,129	0	29,013	0	838,194	894,336
Sixteenth section sources	0	124,152	0	0	28,705	152,857
Total revenues	\$4,152,010	124,152	36,099	143,520	1,109,124	5,564,905
EXPENDITURES						
Instruction	2,876,592	0	0	0	631,130	3,507,722
Support Services	1,431,697	0	29,110	0	141,115	1,601,922
Noninstructional services	7,948	0	0	0	414,593	422,541
Sixteenth section	0	36,891	0	0	15,259	52,150
Facilities Acquisition	0	0	629,150	0	0	629,150
Debt service:						
Principal	22,351	0	0	110,000	45,000	177,351
Interest	5,569	0	0	35,040	24,872	65,481
Other	0	0	0	0	0	0
Total expenditures	4,344,157	36,891	658,260	145,040	1,271,969	6,456,317
Excess(deficiency) of revenues over expenditures	(192,147)	87,261	(622,161)	(1,520)	(162,845)	(891,412)
OTHER FINANCING SOURCES (USES)						
Transfers in	116,986	0	0	0	162,896	279,882
Transfers out	(162,597)	(79,222)	0	0	(38,063)	(279,882)
Total other financing sources and uses	(45,611)	(79,222)	0	0	124,833	0
Net change in fund balances	(237,758)	8,039	(622,161)	(1,520)	(38,012)	(891,412)
Fund balances:						
July 01, 2006	551,762	13,601	299,261	150,622	266,532	1,281,778
Prior period adjustments	(685)	0	0	0	0	(685)
July 1, 2006, restated	551,077	13,601	299,261	150,622	266,532	1,281,093
Increase(decrease) in inventory	0	0	0	0	(978)	(978)
June 30, 2007	\$313,319	21,640	(322,900)	149,102	227,542	388,703

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

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

Exhibit D-1

Net change in fund balances (Exhibit D)

Amount
(\$891,412)

Amounts reported for governmental activities in the statement of activities are different because:

- | | |
|---|---------|
| 1 Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchased amounted to \$635,723, and the depreciation expense amounted to \$126,540. | 509,183 |
| 2 Payment of principal and long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Activities. | 177,351 |
| 4 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 | 3,359 |
| 5 Decrease in inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are increased in the Statement of Activities. | (978) |
| 6 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 the interest becomes due. | 8,781 |

Changes in net assets of governmental activities (Exhibit B)

(\$193,716)

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

Richton School District
Statement of Fiduciary Assets and Liabilities
June 30, 2007

Exhibit E

	Total Agency Funds
ASSETS	
Cash and cash equivalents	\$ 37,834
Other receivables	485
Total Assets	<u>38,319</u>
LIABILITIES	
Accounts payable and accrued liabilities	0
Due to other funds	7,440
Due to student clubs	30,879
Total Liabilities	\$ <u>38,319</u>

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

RIGHTON SCHOOL DISTRICT

(This page left blank intentionally)

Richton School District
Notes to the 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 Richton, Mississippi, 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. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues.

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

Fund Financial Statements:

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

C. Measurement Focus and Basis of Accounting.

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

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

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

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.

Sixteenth Section Interest Fund - This special revenue fund is used to account for the financial resources associated with expendable revenues derived from the use of sixteenth section lands held in trust by the school district and from the investment of expendable sixteenth section funds.

RSD Renovation Fund - This is a capital projects fund used to account for the funds transferred in from appropriate governmental funds to be used for the renovation and construction of school facilities.

MAEP Debt Service Fund - This is a debt service fund used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

FIDUCIARY FUNDS

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

D. Account Classifications.

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

E. Encumbrances.

An encumbrance system is maintained to account for commitments resulting from purchase orders, work orders, and contracts during the fiscal year. However, the school district attempts to liquidate all encumbrances at year-end. Encumbrances outstanding at year-end are not reported as reservations of fund balances since they do not constitute expenditures or liabilities.

F. Cash and Cash Equivalents.

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

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

Cash and cash equivalents consist of amounts on deposit in demand accounts and certificates of deposit with original maturities of 3 months or less. Cash and cash equivalents are valued at cost.

G. Investments.

The school district can invest its excess funds, as permitted by Section 29-3-113, Miss. Code Ann. (1972), in interest-bearing deposits or other obligations of the types described in Section 27-105-33, Miss. Code Ann. (1972), or in any other type investment in which any other agency, instrumentality or subdivision of the State of Mississippi may invest, except that 100% of said funds are authorized to be so invested. For accounting purposes, certificates of deposit are classified as investments if they have an original maturity greater than 3 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.

I. Capital Assets.

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

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

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

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

	Capitalization Policy	Estimated Useful Life
Land	-	-
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

J. Long-term Liabilities.

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

K. Interfund Transactions and Balances.

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

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

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 the revenues 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 of interfund transactions, including receivables and payables at year-end.

L. Equity Classifications.

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

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

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

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

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 ad valorem – An account used to record the ad valorem taxes collected in excess of legal limitations for the current fiscal year.

Reserved for debt service - An account that represents that portion of fund balance in the Debt Service Fund which is 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 prepaid items - An account that represents a portion of fund balance that is made up of prepaid items that are not

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

considered expendable financial resources.

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

M. Property Taxes.

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

N. Mississippi Adequate Education Program Revenues.

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

O. Compensated Absences.

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

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

(2) Cash and Cash Equivalents and Investments.

The district follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns.

Restrictions on deposits and investments are imposed by statutes as follows:

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

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

Cash and Cash Equivalents.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds

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

was \$930,071 (which includes \$17,259 in certificates of deposit with original maturities beyond three months and reported on Exhibit C as investments) and \$37,834, respectively. The carrying amount of deposits reported in the government-wide financial statements was: cash and cash equivalents \$912,672 (which includes \$10,000 in certificates of deposit with original maturities beyond three months and reported on Exhibit A as investments) and restricted assets \$17,399, which consists of cash and investments of the Sixteenth Section Principal Fund (Permanent Fund), which is legally restricted and may not be used for purposes that support the district's programs. The bank balance of the district's cash and cash equivalents .

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2007, none of the district's bank balance of \$1,296,092 was exposed to custodial credit risk.

(3) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds.

General Fund	\$	171,839	0
Sixteenth section interest Fund			78,922
Other governmental funds		4,242	89,719
Total	\$	<u>176,081</u>	<u>168,641</u>
Fiduciary Funds			7,440
Total	\$	<u>176,081</u>	<u>176,081</u>

Amounts due from/to other funds represent interfund loans caused by timing of receivables due from other governments to special revenue funds and the related interfund loans necessary to remedy these timing differences and for interest earned on fiduciary fund checking accounts, which is due to the District Maintenance Fund (General Fund) at June 30, 2007.

B. Transfers In/Out.

		<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:			
General Fund	\$	116,986	162,597
Sixteenth Section Interest Fund		0	79,222
Other governmental funds		162,896	38,063
Totals	\$	<u>279,882</u>	<u>279,882</u>

The interfund transfers constitute general operating transfers and transfers of indirect costs. The general operating transfers move resources between funds, while transfers of indirect costs provide resources for the General Fund in return for financing the indirect costs associated with certain federal programs.

(4) Capital Assets.

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

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

	Balance July 01, 2006	Additions	Retirements	Completed Construction	Balance June 30, 2007
Non-depreciable Assets:					
Land	\$ 108,253				108,253
Construction in progress	245,079	629,150		(874,229)	0
Total non-depreciable assets	353,332	629,150		(874,229)	108,253
Depreciable Assets:					
Buildings	4,437,565				4,437,565
Building Improvements	0			874,229	874,229
Improvements other than buildings	247,808				247,808
Mobile equipment	454,641				454,641
Furniture and equipment	207,096	6,573			213,669
Leased property under capital lease	122,400				122,400
Total depreciable assets	5,469,510	6,573		874,229	6,350,312
Less: Accumulated Depreciation for -					
Buildings	1,839,893	65,286			1,905,179
Building Improvements		17,485			17,485
Improvements other than buildings	59,473	9,912			69,385
Mobile equipment	364,852	9,405			374,257
Furniture and equipment	156,781	13,436			170,217
Leased property under capital lease	11,016	11,016			22,032
Total accumulated depreciation	2,432,015	126,540	0	0	2,558,555
Total depreciable capital assets, net	3,037,495	(119,967)	0	0	3,791,757
Governmental activities capital assets, net	\$ 3,390,827	509,183	0	0	3,900,010

Depreciation expense was charged to the following governmental functions:

Instruction	\$ 72,355
Support services	33,499
Non-instructional	20,686
Total	\$ 126,540

(5) Long-term Liabilities.

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

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

	Balance July 01, 2006	Additions	Reductions	Balance June 30, 2007	Amounts due within one year
A. Limited obligation bonds payable	\$ 785,000		110,000	675,000	115,000
B. Three mill notes payable	561,000		45,000	516,000	47,000
C. Obligations under capital lease	122,400		22,351	100,049	23,368
D. Compensated absences payable	47,850		3,359	44,491	2,225
Totals	\$ 1,516,250	0	180,710	1,335,540	187,593

A. Limited obligation bonds 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>
State aid capital Improvement, Series 1998	4.8%	04-01-1998	08-01-2013	<u>\$1,235,000</u>	<u>\$675,000</u>

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

<u>Year Ending June 30, 2007</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 115,000	29,640	144,640
2009	80,000	24,960	104,960
2010	90,000	20,880	110,880
2011	90,000	16,560	106,560
2012	95,000	12,120	107,120
2013-2014	205,000	9,960	214,960
Totals	\$ 675,000	114,120	789,120

The state aid capital improvement bonds are secured by an irrevocable pledge of certain revenues the district receives from the State of Mississippi pursuant to the Mississippi Accountability and Adequate Education Program Act, Sections 37-151-1 through 37-15-7, Miss. Code Ann. (1972). The state aid capital improvement bonds are not included in the computation of legal debt limits. See Note 7. This debt will be retired from the MAEP Debt Service Fund.

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>
Limited tax notes, Series 2002	4.20%	07-15-2002	07-15-2017	<u>\$650,000</u>	<u>\$516,000</u>

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

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

Year Ending June 30	Principal	Interest	Total
2008 \$	47,000	22,188	69,188
2009	50,000	20,636	70,636
2010	48,000	18,436	66,436
2011	45,000	16,324	61,324
2012	46,000	14,344	60,344
2013-2017	235,000	42,300	277,300
2018	45,000	2,025	47,025
Totals \$	<u>516,000</u>	<u>136,253</u>	<u>652,253</u>

This debt will be retired from the Short-term Bond and Interest Fund.

C. 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 two school buses.

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

Year Ending June 30, 2007	Principal	Interest	Total
2008 \$	23,368	4,021	27,389
2009	24,432	2,933	27,365
2010	25,543	1,796	27,339
2011	26,706	608	27,314
Totals \$	<u>100,049</u>	<u>9,358</u>	<u>109,407</u>

The equipment will become the property of the school district after the term of the lease has ended and all lease payments have been paid.

The debt will be retired from the District Maintenance Fund.

D. Compensated Absences Payable.

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

(6) Short-term borrowing.

The following is a summary of changes in short-term liabilities and obligations for governmental activities.

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Amounts</u> <u>due within</u> <u>one year</u>
Tax Revenue Anticipation Note	\$ -	390,000	60,000	330,000	-

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

The Tax Revenue Anticipation Note was issued September 1, 2006, at a rate of 3.9%. A reduction of \$60,000 was paid on the note during the 2006-2007 year. The remaining balance is due September 1, 2008. See Note 13 for details of the final payment made on the note.

The proceeds of the short-term borrowing were used for school repair purposes following destruction caused by Hurricane Katrina in anticipation of the collection of taxes and other revenues, pursuant to Code Section 35-59-37, Mississippi Code Ann. (1972). The borrowing was slated as being payable out of the proceeds of anticipated revenues from FEMA and other Federal funds to be received due to Hurricane Katrina and which may be used for such purpose, insurance reimbursements, district maintenance funds, timber sale revenues, and any other available funds of the District.

(7) Pledged Revenues.

The School District has pledged a portion of future state Minimum Adequate Education Program revenues to repay \$1,235,000 in limited obligation bonds payable issued in April 1998. Proceeds from the bonds were used to finance capital improvements made to the district's buildings. The bonds are payable solely from future revenues of the state Minimum Adequate Education Program and are payable through 2014. Annual principal and interest payments on the bonds are expected to require approximately four (4) percent of such state revenues. The total principal and interest remaining to be paid on the bonds is \$789,120. Principal and interest paid for the current year and total State Minimum Adequate Education Program revenues were \$145,040 and \$3,397,848, respectively.

The School District has pledged a portion of future Educational Enhancement Fund revenues to repay \$650,000 in three mill notes payable issued in July 2002. Proceeds from the bonds were used to make capital improvements to the district's buildings. The notes are payable in part from future revenues of the state Educational Enhancement Buildings and Buses Revenue Program and are payable through 2018. Annual principal and interest payments on the notes are expected to require all of such state revenues designated as Educational Enhancement Buildings and Buses Revenues and additional revenues raised through ad valorem debt service levies. The total principal and interest remaining to be paid on the notes is \$652,253. Principal and interest paid for the current year and total state Educational Enhancement Building and Buses revenues were \$69,123 and \$32,160, respectively.

(8) Defined Benefit Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The rate for fiscal year ended June 30, 2007, was 11.30% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2007, 2006 and 2005 were \$365,436, \$340,419, and \$287,872, respectively, equal to the required contributions for each year.

(9) Sixteenth Section Lands.

Sixteenth section school lands, or land 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.

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

Year Ending June 30	Amount
2008 \$	6,670
2009	<u>6,670</u>
Total \$	<u>13,340</u>

(10) Deficit Fund Balance of Individual Funds.

The Short-term Principal and Interest Fund has a deficit fund balance in the amount of (\$2,212). This deficit fund balance was caused when the district transferred State Educational Enhancement dollars pledged for debt retirement in the fund by error. The debt service payments on the debt backed by a pledge of State Educational Enhancement dollars was not paid from the Short-term Principal and Interest Fund, but was paid from the District Maintenance Fund. Therefore, the amounts transferred into the Short-term Principal and Interest Fund are payable at balance sheet date to the fund that serviced the debt. The recording of this payable at year-end as a result of proposed audit adjustments caused the deficit fund balance.

The RSD Renovation Fund has a deficit fund balance of (\$322,900). This deficit was caused when the district issued a short-term tax revenue anticipation note in anticipation of future revenues to fund renovations made necessary by damages caused in Hurricane Katrina.

(11) Prior Period Adjustments/Exhibits.

Exhibit B - Statement of Activities

<u>Explanations</u>	<u>Amount</u>
1. Adjustment to correct a prior year error in recording a liability	685
Total	<u>\$ 685</u>

(12) Risk Management.

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

Participation in Public Entity Risk Pool.

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 121 school districts and one community college and covers risks of loss arising from injuries to the member's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by BancorpSouth Bank in Jackson. The funds in the trust account are used to pay any claim up to \$700,000. For a claim exceeding \$700,000, MSBAWCT has insurance which will pay the excess to the statutory amount required by the Mississippi Workers Compensation Commission Act. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

(13) Subsequent Events.

The short-term borrowing explained in Note 6 was paid in full on September 8, 2008. The total payment, including principal and interest, was \$342,391.13. This repayment included seven days' interest accruing subsequent to the due date of the note, September 1, 2008. This borrowing repayment was made possible by an interfund transfer from the District Maintenance Fund (Fund 1120), which is the District's general operating fund. The transfer was necessary because the anticipated revenues necessary to repay the note did not

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

materialize by the due date of the note. The District anticipates an estimated \$45,000 of FEMA reimbursements to materialize during the 2008-2009 year that would have been used to repay the short-term borrowing. The reimbursements had not materialized as of the date of the audit report.

The necessary transfer from the District Maintenance Fund to the RSD Renovation Fund seriously erodes the fund balance of the District's general operating fund. If projected revenues and expenditures for the 2008-2009 year are realized, the fund will end the year at June 30, 2009, with a fund balance that is less than the state-recommended minimum of 5% of subsequent year total revenues.

RICHTON SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION

RIGHTON SCHOOL DISTRICT

This page left blank intentionally)

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

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
	Revenues				
Local sources	705,630	705,630	734,431	0	28,801
State sources	3,384,929	3,247,475	3,390,450	(137,454)	142,975
Federal sources	1,000	1,000	27,129	0	26,129
Total Revenues	\$ 4,091,559	3,954,105	4,152,010	(137,454)	197,905
Expenditures					
Instruction	2,881,694	2,843,523	2,876,592	38,171	(33,069)
Support Services	1,432,749	1,439,982	1,431,697	(7,233)	8,285
Noninstructional	10,000	10,000	7,948	0	2,052
Debt service					
Principal	47,200	30,200	22,351	17,000	7,849
Interest	0	0	5,569	0	(5,569)
Total Expenditures	4,371,643	4,323,705	4,344,157	47,938	(20,452)
Excess (Deficiency) of Revenues Over Expenditures	(280,084)	(369,600)	(192,147)	(89,516)	177,453
Other Financing Sources (Uses)					
Operating transfers in	170,143	170,143	116,986	0	(53,157)
Operating transfers out	(10,000)	(10,000)	(162,597)	0	(152,597)
Total Other Financing Sources (Uses)	160,143	160,143	(45,611)	0	(205,754)
Net Change in Fund Balances	(119,941)	(209,457)	(237,758)	(89,516)	(28,301)
Fund Balances					
July 1, 2006	631,900	551,078	551,762	(80,822)	684
Prior period adjustments			(685)	0	(685)
July 1, 2006, restated	\$ 631,900	551,078	551,077	(80,822)	(1)
June 30, 2007	511,959	341,621	313,319	(170,338)	(28,302)

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

RICHTON SCHOOL DISTRICT
Budgetary Comparison for the Sixteenth Section Interest Fund
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues					
Local sources	0	0	0	0	0
State sources	0	0	0	0	0
Federal sources	0	0	0	0	0
Sixteenth section sources	207,700	207,700	124,152	0	(83,548)
Total Revenues	\$ 207,700	207,700	124,152	0	(83,548)
Expenditures					
Instruction	0	0	0	0	0
Support Services	0	0	0	0	0
Noninstructional	0	0	0	0	0
Sixteenth section	5,600	5,600	36,891	0	(31,291)
Debt service	0	0	0	0	0
Total Expenditures	5,600	5,600	36,891	0	(31,291)
Excess (Deficiency) of Revenues Over Expenditures	202,100	202,100	87,261	0	(114,839)
Other Financing Sources (Uses)					
Other financing sources	0	0	0	0	0
Operating transfers in	0	0	0	0	0
Operating transfers out	(160,000)	(160,000)	(79,222)	0	80,778
Total Other Financing Sources (Uses)	(160,000)	(160,000)	(79,222)	0	80,778
Net Change in Fund Balances	42,100	42,100	8,039	0	(34,061)
Fund Balances					
July 1, 2006	16,500	13,601	13,601	(2,899)	0
June 30, 2007	\$ 58,600	55,701	21,640	(2,899)	(34,061)

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

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

Budgetary Comparison Schedule

(1) Basis of Presentation.

The Budgetary Comparison Schedules present the original legally adopted budget, the final legally adopted budget, the actual data on 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.

RIGHTON SCHOOL DISTRICT

(This page left blank intentionally)

RIGHTON SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

RIGHTON SCHOOL DISTRICT

(This page left blank intentionally)

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

<u>Federal Grantor/ Pass-through Grantor/ Program Title</u>	<u>Catalog of Federal Domestic Federal Assistance No.</u>	<u>Federal Expenditures</u>
<u>U. S. Department of Agriculture</u>		
Child nutrition cluster:		
School breakfast program	10.553	68,177
National school lunch program	10.555	206,527
Total child nutrition cluster		<u>274,704</u>
Total U. S. Department of Agriculture		<u>\$ 274,704</u>
 <u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The school and libraries program of the universal service Fund	32.XXX	26,911
Total Federal Communications Commission		<u>26,911</u>
 <u>U. S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	288,298
Safe and drug-free schools and communities - state grants	84.186	4,686
State grants for innovative programs	84.298	3,159
Education technology - state grants	84.318	25,012
Transition to teaching	84.350	218
Rural education	84.358	14,141
Improving teacher quality - state grants	84.367	40,198
Total		<u>375,712</u>
Special education cluster:		
Special education - grants to states	84.027	179,982
Special education - preschool grants	84.173	8,014
Total		<u>187,996</u>
Total passed-through Mississippi Department of Education		<u>563,708</u>
Total U. S. Department of Education		<u>563,708</u>
 <u>Department of Homeland Security</u>		
Passed-through Mississippi Department of Homeland Security:		
Disaster grants - public assistance	97.036	29,013
Total passed-through Mississippi Department of Homeland Security		<u>29,013</u>
Total Department of Homeland Security		<u>29,013</u>
Total for all Federal Awards		<u>\$ 894,336</u>

NOTES TO SCHEDULE

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

RICHTON SCHOOL DISTRICT

Schedule of Instructional, Administrative, and Other Expenditures - Governmental Funds

For the Year Ended June 30, 2007

Expenditures	Total	Instructional and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 4,362,643	3,468,534	274,630	181,665	437,814
Other	2,093,674	407,884	79,462	17,604	1,588,724
Total	<u>6,456,317</u>	<u>3,876,418</u>	<u>354,092</u>	<u>199,269</u>	<u>2,026,538</u>
Total number of students *	<u>760</u>				
Cost per student	\$ <u>8,495</u>	<u>5,100</u>	<u>466</u>	<u>262</u>	<u>2,667</u>

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

Instructional and other Student Instructional Expenditures – includes the activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teacher aides or classroom assistants of any type (all the 1,000's, 2100's, and 2200's functional expenditure codes).

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

School Administration – includes expenditures for the following function: Support Services – School Administration (2400's).

Other – includes all expenditure functions not included in Instructional or Administration categories.

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

RIGHTON SCHOOL DISTRICT

(This page left blank intentionally)

RICHTON SCHOOL DISTRICT

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

RIGHTON SCHOOL DISTRICT

(This page left blank intentionally)

Suzanne E. Smith
Certified Public Accountant

P.O. Box 7124
Meridian, MS 39304
Phone: (601) 482-7966

REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Superintendent and School Board
Richton School District

I have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Richton School District as of and for the year ended June 30, 2007, which collectively comprise Richton School District's basic financial statements and have issued my report thereon dated September 12, 2008. I conducted my 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 my audit, I considered the school district's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the school district's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the school district's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. I consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as Findings 2007-01, 2007-02, 2007-03, 2007-04, and 2007-05 to be significant deficiencies in internal control over financial reporting.

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

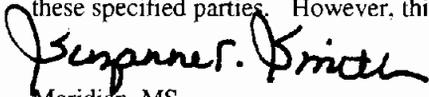
My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessary disclose all significant deficiencies that are also considered to be material weaknesses. However, I consider Finding 2007-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, I performed tests of 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 statements amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of noncompliance that we have reported in to management of the school district in a separate dated September 12, 2008, which is included in this report.

This report is intended solely for the information and use of the District's 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.



Meridian, MS
September 12, 2008

Suzanne E. Smith
Certified Public Accountant

P.O. Box 7124
Meridian, MS 39304
Phone: (601) 482-7966

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR 1-133

Superintendent and School Board
Richton School District

Compliance

I have audited the compliance of the Richton School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. The school district's major federal programs are identified in the summary of the 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. My responsibility is to express an opinion on the school district's compliance based on my audit.

I conducted my 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 I 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 I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the school district's compliance with those requirements.

In my opinion, the Richton 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

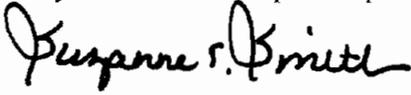
The management of the Richton School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the school district's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I 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 that will not be prevented or detected by the entity's internal control

My 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. I did not identify any deficiencies in internal control over compliance that I 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 the specified parties. However, this report is a matter of public record and its distribution is not limited.



Meridian, MS
September 12, 2008

RICHTON SCHOOL DISTRICT

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

RIGHTON SCHOOL DISTRICT

(This page left blank intentionally)

Suzanne E. Smith
Certified Public Accountant

P.O. Box 7124
Meridian, MS 39304
Phone: (601) 482-7966

REPORT ON COMPLIANCE WITH
STATE LAWS AND REGULATIONS

Superintendent and School Board
Richton School District

I have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Richton School District as of and for the year ended June 30, 2007, which collectively comprise Richton School District's basic financial statements and have issued my report thereon dated September 12, 2008. I conducted my 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, I 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 my audit and, accordingly, I do not express such an opinion. The results of my procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed the following instances of noncompliance. The noncompliance is reporting in finding number: **State Legal 2007-01**. The district reported \$11,785 of classroom supply funds carried over from previous years.

Section 37-9-18(3)(b), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure correct and appropriate coding at the function level. The audit must include a report showing the correct and appropriate function level expenditure codes in expenditures by the school district. The results of my procedures performed to test compliance with the requirements of Section 37-9-18(b), Miss. Code Ann. (1972), disclosed no instances of noncompliance related to incorrect or inappropriate functional level expenditure coding.

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

Finding

State Legal 2007-01.

The school district did not allow principals the opportunity to expend the balance of unencumbered, unspent educational enhancement dollars on hand in the district at March 31, 2007, for instructional supplies, materials, and equipment. Miss. Code Section 37-61-33 states that: "However, beginning July 1, 2006, any funds allocated under this subparagraph which are not reserved in an approved spending plan but remain unspent on March 31 of the fiscal year in which the funds were allotted must be utilized by the school where the teacher is employed for instructional supply and equipment purposes." There was no evidence that principals were made aware of this or that they were given the opportunity to spend any remaining unused amounts.

Recommendation

I recommend that the district allow principals the opportunity to expend the balance of unencumbered, unspent educational enhancement

dollars on hand in the district at March 31 of each year.

District Response

Richton School District will comply with Miss. Code Section 37-61-33 by making the principals aware of any remaining educational enhancement funds to be spent as needed for their schools.

Finding

State Legal 2007-2.

There was no specific board approval for a transfer of 16th Section Interest monies from the 16th Section Interest Fund to the general fund. State law requires that such transfers have specific school board approval as outlined in Code Section 29-3-117, Miss. Code Ann. (1972).

Recommendation

I recommend that all transfers from the 16th Section Interest Fund be supported by specific board approval documented in the official minutes of the school board.

District Response

Richton School District will comply with Miss. Code Section 29-3-117 by receiving board approval for any transfers from the 16th Section Interest Fund.

Finding

State Legal 2007-3.

The school district shares 16th section revenues with Perry County School District in two townships. Money collected from rents and leases and timber sales on these trust lands must be shared in accordance with Code Section 29-3-119, Miss. Code Ann. (1972). During the 2006-2007 year, the school district collected monies from leases and timber sales that should have been shared with the Perry County School District. \$35,911.31 of the revenues collected should have been remitted to the other district. No such monies were remitted to the district.

Recommendation

I recommend that the district remit the amounts owed to the other district and begin a process of timely settlements of all shared revenues to this other district.

District Response

Richton School District has obtained a listing of students that live in the townships that lie partially in Perry County School District and partially in the Richton School District. Once reviewed and verified, the district will comply with Code Section 29-3-119 and remit any funds owed to the Perry County School District in a timely manner.

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

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and

federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Suzanne S. Smith

Meridian, MS

September 12, 2008

RIGHTON SCHOOL DISTRICT

(This page left blank intentionally)

RIGHTON SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

RIGHTON SCHOOL DISTRICT

(This page left blank intentionally)

**Richton 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 basic financial statements: | Unqualified |
| 2. Material noncompliance relating to the basic financial statements? | No |
| 3. Internal control over financial reporting: | |
| a. Material weaknesses identified? | Yes |
| b. Significant deficiencies identified that are not considered to be material Weaknesses? | Yes |

Federal Awards:

- | | |
|---|-------------|
| 4. Type of auditor's report issued on compliance for major federal programs | Unqualified |
| 5. Internal control over major programs: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified that are not considered to be material Weaknesses? | No |
| 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 | |
| b. Special Education Cluster | |
| CFDA # 84.027 | |
| CFDA # 84.173 | |
| 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 findings and questioned costs relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____315(b) of OMB Circular A-133 | No |

Section 2: Financial Statement Findings

Control Deficiencies considered to be a Material Weakness:

2007-01. Finding Weakness in controls surrounding financial statement preparation

The school district is responsible for designing and establishing a system of reporting and asset controls to make sure that school district assets are protected and that the financial records and statements are accurate and correct in all material respects.

The school district management did not have a full understanding of the requirements of generally accepted governmental accounting principles in order to accurately prepare and present a set of financial statements for the 2006-2007 year.

The district did not compute depreciation expense for the year or add the required additions and deletions to the capital asset inventory for the year. Net additions of \$629,150 were not captured in the subsidiary records, and depreciation expense of \$126,540 was not calculated or recorded. Audit adjustments were necessary for these amounts in order for the statements to be fairly presented.

Accrued payroll amounts payable were shown as fiduciary fund liabilities at June 30, 2007, even though the related assets were held in governmental fund bank accounts at this date. An adjustment was necessary to properly reflect the accrued payroll amounts in the appropriate governmental funds at balance sheet date. The amount of the accrued payroll was \$293,703.

A \$390,000 tax revenue anticipation note was incorrectly recorded as an other financing source, and a related reduction of this debt was shown as a debt service expenditure in the 2006-2007 financial records. This recording and presentation is not in accordance with generally accepted accounting principles for the recording of tax revenue anticipation notes. An audit adjustment to properly reflect the net amount of this debt as a current liability on the governmental funds statements and the entity-wide statements was necessary.

Recommendation

The school district management should begin a process of capturing new asset additions on a monthly basis and updating the subsidiary ledgers monthly following the capturing and tagging of the new assets. The district should further run the depreciation routine each fiscal year at the end of the year after all additions are made to the subsidiary records and all deletions are posted.

Accrued payroll should be shown in the proper funds at balance sheet date. The district should record the accrual in the fund/s where the related asset is found at balance sheet date.

All tax revenue anticipation notes should be recorded as current liabilities in the financial accounting records and on the face of the statements. Proper disclosures of these amounts should be made as part of the notes to the financial statements.

All options, including the hiring of outside audit firms or contractors, should be considered when preparing year-end financial statements for audit.

Control Deficiencies considered to be a Significant Deficiencies

2007-02. Finding Lack of segregation of duties in local school activity fund receipts/revenues

A lack of segregation of duties exists at the central office in the area of cash receipts/revenues. The following duties are combined for the business manager:

- Cash receipts
- Coding of cash receipts
- Preparation of deposits
- Recording of deposits

This increases the risk that unauthorized or inappropriate transactions could be processed and not be detected by school district business

department employees in the normal course of their day-to-day duties. As in many public school districts, staff is limited at the local school level. Limited staff is likely the main reason for this lack of segregation of duties.

Recommendation

While the best course of action would be to increase staff size, this may not be feasible. The school district should explore compensating controls that would allow a system of checks and balances in the cash receipts/revenue cycle.

2007-03. Finding Weakness in controls surrounding transfers of Educational Enhancement Funds

School district management is responsible for establishing a proper internal control system to insure asset accountability and financial reporting accuracy for all district funds. Controls surrounding the accounting for the transfer of Educational Enhancement Funds for debt service payments were found to be deficient.

Money transferred from the Educational Enhancement Building/Bus Fund (Fund 2410) for pledged debt payment was transferred to a debt service fund that did not service the debt for which the revenues were transferred. Instead, the district paid the debt service payments out of the general fund. This error in transferring money appears was made because of a lack of understanding of where the debt payments were actually paid. An audit adjustment was necessary to show the interfund payable that now exists between the debt service fund receiving the money and the general fund. The resulting interfund payable amount is \$32,163.

Recommendation

The school district should establish controls and independent verifications to ensure that monies transferred from the Educational Enhancement Building/Bus Fund (Fund 2410) for debt service are transferred to the appropriate fund that services the debt. As an alternative, the district should pay the debt service payments directly from Fund 2410.

2007-04. Finding Payroll Expenditures Should Be Supported by Adequate Documentation

Management is responsible for ensuring that support for all expenditures made by the district is adequately documented. Furthermore, management is responsible for providing documentation to ensure compliance with Fair Labor Standards requirements.

I noted that non-exempt, hourly workers were being paid in twelve equal installments during the 2006-2007 year. There was no consistent method of capturing actual hours worked by non-exempt, hourly workers. This could result in employees being improperly compensated.

Recommendation

The district has started a new method of pay for non-exempt, hourly workers in the 2008-2009 year. I recommend that this new method of paying hourly workers for the actual hours worked in separate, defined pay periods be continued, monitored, and refined to serve as the method of accurately capturing actual hours worked by non-exempt, hourly workers.

2007-05. Finding Federal E-Rate Revenue Not Recorded

School district management is responsible for establishing a proper internal control system to insure asset accountability and financial reporting accuracy for all district funds. Federal E-Rate Revenue was not properly recorded in the 2006-2007 accounting records, but was shown as a net expenditure amount in the accounts of the district. An audit adjustment was made to properly reflect the federal revenue and expenditure in the general fund. The amount of this audit adjustment was \$10,944. New accounting personnel were not aware of the need to capture should vendor credits as revenue.

Recommendation

I recommend that the district maintain records that will facilitate the capturing of such E-Rate vendor credits for proper financial

recording and financial statement presentation.

Section 3: Federal Award Findings and Questioned Costs

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

RIGHTON SCHOOL DISTRICT
AUDITEE'S CORRECTIVE ACTION PLAN

RIGHTON SCHOOL DISTRICT

(This page left blank intentionally)

Response to 2007-01 – Weakness in controls surrounding financial statement preparation:

Richton School District will begin a process of capturing and tagging new asset additions on a monthly basis. Subsidiary ledgers will also be updated monthly. The District will run the depreciation routine each fiscal year after all additions and deletions have been posted. Mrs. Brenda Clark, Accounts Payable Clerk, has been assigned responsibility for accounting for and maintaining fixed asset records. Mr. Kyle Nobles, Superintendent of Education, and Dedie Cooley, Business Manager, will provide the necessary supervision to insure all procedures and requirements of the district are followed.

Dedie Cooley, Business Manager, will make certain that all tax revenue anticipation notes are recorded as current liabilities in the financial accounting records and on the face of the financial statements.

The Richton School District will consider the hiring of outside audit firms or contractors when preparing year-end financial statements.

Response to 2007-02 – Lack of segregation of duties in local school activity fund receipts/revenues:

The segregation of duties will be explored to limit the risk of inappropriate transactions in the area of cash receipts/revenues. Duties will be assigned as adequately as possible within the constraints of a limited office staff. Dedie Cooley, Business Manager, will delegate the duties between the office staff.

Response to 2007-03 – Weakness in controls surrounding transfers of Educational Enhancement Funds:

Dedie Cooley, Business Manager, will establish controls and independent verifications to ensure that monies transferred from the Educational Enhancement Building/Bus Fund (Fund 2410) for debt service are transferred to the appropriate fund that services the debt. The district will pay the debt service payments directly from Fund 2410.

Response to 2007-04 – Payroll expenditures should be supported by adequate documentation:

The Richton School District has begun a new method of pay for non-exempt, hourly workers in the 2008-2009 school year. Employees will be paid only for the number of hours actually worked within an established pay period. Dedie Cooley, Business Manager, will begin the process of hourly employees using a time clock within the next few months. This procedure will provide a more accurate system of capturing actual hours worked, sick/personal time, etc.

Response to 2007-05 – Federal E-rate revenue not recorded:

The Richton School District will maintain records that will facilitate the capturing of such E-Rate vendor credits for proper financial recording and financial statement presentation. Dedie Cooley, Business Manager, will comply with the proper procedures of this action.

