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SOUTH PIKE SCHOOL DISTRICT

Audited Financial Statements  
For the Fiscal Year Ended June 30, 2007

Cox & Palmer  
Certified Public Accountants



# SOUTH PIKE SCHOOL DISTRICT

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SOUTH PIKE SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

SOUTH PIKE SCHOOL DISTRICT

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

Superintendent and School Board  
South Pike School District

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the South Pike School District, as of June 30, 2007, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2007, on our consideration of the South Pike School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an

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South Pike School District  
Independent Auditor's Report

opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 7 through 15 and the Budgetary Comparison Schedule and corresponding notes on pages 45 through 46 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

  
Cox & Palmer  
November 20, 2007

SOUTH PIKE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

SOUTH PIKE SCHOOL DISTRICT

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

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

### FINANCIAL HIGHLIGHTS

- Total net assets, including the effect of prior period adjustments, decreased \$1,057,878, which represents an 9% decrease from fiscal year 2006.
- General revenues accounted for \$13,717,183 in revenue, or 76% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$4,407,922, or 24% of total revenues.
- The District had \$18,850,106 in expenses; only \$4,407,922 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$13,717,183 and beginning net assets were adequate to provide for these programs.
- Among major funds, the General Fund had \$12,767,299 in revenues and \$13,641,507 in expenditures. After net other financing uses of \$489,625, the net change in fund balance for the General Fund was a decrease of \$1,363,833 from the previous fiscal year. This decrease is due primarily to the purchase of land and buildings during the fiscal year and the transfer of funds to the School Construction Fund and Osyka Classroom Addition Fund to be used for the renovation and construction of school facilities.
- Capital assets, net of accumulated depreciation, increased by \$681,928.
- Long-term debt decreased by \$377,616.

### 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 are comprised of 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

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

to a private-sector business. These statements are prepared using the accrual basis of accounting and include all assets and liabilities.

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

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

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

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

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

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

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

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

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

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

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and a schedule of instructional, administrative and other expenditures for governmental funds is also included in this report.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

**Net assets.** Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$11,146,758 as of June 30, 2007.

The district's net assets are comprised of 1) net assets invested in capital assets, net of related debt, 2) restricted net assets and 3) unrestricted net assets. \$6,701,469 of the District's net assets (60%) reflects its investment in capital assets (e.g., land, construction in progress, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment and leased property under capital leases), 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. \$2,102,030 of the District's net assets (19%) reflects its restricted net assets. A portion of the restricted net assets is expendable for school based activities, debt service, forestry improvements and unemployment benefits. The remaining portion of the restricted net assets is nonexpendable for 16<sup>th</sup> section

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

investment purposes and scholarships. \$2,343,259 of the District's net assets (21%) reflects its unrestricted net assets.

The District's financial position is a product of several financial transactions including the net result of activities, the 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 comparative data for the fiscal year ended June 30, 2006.

	<u>Net Assets</u>		Percentage
	<u>June 30, 2007</u>	<u>June 30, 2006</u>	<u>Change</u>
Current assets	\$ 5,357,054	\$ 6,369,550	(15.9) %
Restricted assets	206,086	503,866	(59.1) %
Capital assets, net	<u>7,831,929</u>	<u>7,150,001</u>	9.5 %
<b>Total assets</b>	<u>13,395,069</u>	<u>14,023,417</u>	(4.5) %
Current liabilities	1,046,879	239,733	336.7 %
Long-term debt outstanding	<u>1,201,432</u>	<u>1,579,048</u>	(23.9) %
<b>Total liabilities</b>	<u>2,248,311</u>	<u>1,818,781</u>	23.6 %
<b>Net assets:</b>			
Invested in capital assets, net of related debt	6,701,469	5,670,624	18.2 %
Restricted	2,102,030	2,347,931	(10.5) %
Unrestricted	<u>2,343,259</u>	<u>4,186,081</u>	(44.0) %
<b>Total net assets</b>	<u>\$ 11,146,758</u>	<u>12,204,636</u>	(8.7) %

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

- Current assets decreased from the previous fiscal year due primarily to a decrease in amounts due from other governments. At the end of the previous fiscal year, the District reported a large receivable (due from federal sources) related to the Displaced Students Grant which was a result of Hurricane Katrina.
- Capital assets increased from the previous fiscal year due primarily to the purchase of land, the acquisition and construction of school facilities, the purchase of new school buses and the purchase of various items of equipment.
- Current liabilities increased from the previous fiscal year due primarily to an increase in accounts payable and accrued liabilities related to accrued payroll and construction contracts/retained percentage payables.

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

- Long-term debt outstanding decreased from the previous fiscal year due to principal payments made on existing long-term debt and the decrease in the liability for compensated absences.
- Net assets invested in capital assets, net of related debt, increased from the previous fiscal year due primarily to the increase in capital assets and the decrease in long-term debt related to the capital assets.
- Restricted net assets decreased from the previous fiscal year due primarily to a decrease in amounts restricted for school based activities.
- Unrestricted net assets decreased from the previous fiscal year due primarily to the decrease in fund balance of the General Fund.

**Changes in net assets.** The District's total revenues for the fiscal year ended June 30, 2007 were \$18,125,105. The total cost of all programs and services was \$18,850,106. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2007 and comparative data for the fiscal year ended June 30, 2006.

	<u>Change in Net Assets</u>		<u>Percentage Change</u>
	<u>June 30, 2007</u>	<u>June 30, 2006</u>	
<b>Revenues:</b>			
Program revenues:			
Charges for services	\$ 314,342	\$ 441,758	(28.8) %
Operating grants and contributions	4,093,580	4,748,474	(13.8) %
General revenues:			
Property taxes	3,338,260	2,912,925	14.6 %
Grants and contributions not restricted	9,735,029	8,649,030	12.6 %
Other	643,894	1,042,793	(38.3) %
<b>Total revenues</b>	<u>18,125,105</u>	<u>17,794,980</u>	1.9 %
<b>Expenses:</b>			
Instruction	9,420,627	9,264,432	1.7 %
Support services	8,180,390	6,327,221	29.3 %
Non-instructional	1,141,220	1,098,161	3.9 %
Sixteenth section	82,754	57,984	42.7 %
Interest and other expenses on long-term liabilities	<u>25,115</u>	<u>27,538</u>	(8.8) %
<b>Total expenses</b>	<u>18,850,106</u>	<u>16,775,336</u>	12.4 %
<b>Increase (Decrease) in net assets</b>	(725,001)	1,019,644	
<b>Net Assets, July 1</b>	12,204,636	11,184,992	9.1 %
<b>Prior Period Adjustments</b>	<u>(332,877)</u>	<u>-</u>	
<b>Net Assets, Restated, July 1</b>	<u>11,871,759</u>	<u>11,184,992</u>	6.1 %



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

**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 fiscal year June 30, 2007, its governmental funds reported a combined fund balance of \$4,528,019. The net change in fund balance for the fiscal year was a decrease of \$2,143,040 due primarily to expenditures incurred for the acquisition of land and buildings and the renovation and construction of school facilities. \$2,833,753, or 63%, of the fund balance is reported by fund type in the unreserved, undesignated section of the Governmental Funds Balance Sheet. The portion of the fund balance reported in the General Fund is available for spending at the District's discretion. The portion of the fund balance reported in the Special Revenue Funds will be used for school based activities. The remaining fund balance of \$1,694,266, or 37%, is reserved or designated to indicate that it is not available for spending because it has already been committed. This portion of the fund balance is reserved for advances, inventory, unemployment benefits, forestry improvements, capital project purposes, debt service purposes and permanent fund purposes.

The General Fund is the principal operating fund of the District. The net change in fund balance for the General Fund for the fiscal year was a decrease of \$1,363,833 due primarily to expenditures incurred for the acquisition of land and buildings and the transfer of funds to the School Construction Fund and Osyka Classroom Addition Fund for the renovation and construction of school facilities. The net change in fund balance for the Other Governmental Funds for the fiscal year was a decrease of \$779,207 due primarily to the decrease in fund balance of Sixteenth Section Interest Funds related to transfers to the General Fund during the fiscal year.

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the District revised the annual operating budget. Significant budget revisions during the fiscal year are as follows:

- Budgeted amounts for revenue from local sources in the General Fund were increased to reflect the increase in advalorem taxes received during the fiscal year.
- Budgeted amounts for revenue from federal sources in the General Fund were increased to reflect the increase in E-Rate funds received during the fiscal year.
- Budgeted amounts for support services expenditures in the General Fund were increased to reflect expenditures incurred for the renovation of school facilities.

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

- Budgeted amounts for facilities acquisition and construction expenditures in the General Fund were increased to reflect expenditures incurred for the acquisition of land and buildings during the fiscal year.
- Budgeted amounts for transfers out of the General Fund were increased to reflect the transfer of funds to Capital Project Funds to be used for the renovation and construction of school facilities.

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

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of June 30, 2007, the District's total capital assets, before depreciation, were \$13,389,272, including land, construction in progress, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment and leased property under capital leases. This amount represents a gross increase of \$1,492,823 from the previous year due primarily to the acquisition of land and buildings, the construction and renovation of school facilities and the purchase of various items of mobile equipment and furniture and equipment. Total depreciation expense for the year was \$678,359. A prior period adjustment of \$332,877 was needed to correct accumulated depreciation at fiscal year end. Total accumulated depreciation as of June 30, 2007 was \$5,557,343, resulting in total net capital assets of \$7,831,929.

	<u>Capital Assets, Net of Depreciation</u>		Percentage
	<u>2007</u>	<u>2006</u>	<u>Change</u>
Land	\$ 284,872	\$ 159,989	78.1 %
Construction in progress	471,301	-	
Buildings	4,514,261	4,297,273	5.0 %
Building improvements	872,242	917,038	(4.9) %
Improvements other than buildings	31,905	34,564	(7.7) %
Mobile equipment	1,131,816	1,044,287	8.4 %
Furniture and equipment	371,532	535,850	(30.7) %
Leased property under capital leases	<u>154,000</u>	<u>161,000</u>	(4.3) %
<b>Total</b>	<u>\$ 7,831,929</u>	<u>\$ 7,150,001</u>	9.5 %

**Debt Administration.** At June 30, 2007, the District had \$1,201,432 in general obligation bonds and other long-term debt outstanding, of which \$372,178 is due within one year. During the fiscal year, the District made principal payments in the amount of \$348,917 on existing long-term debt.

	<u>Outstanding Debt</u>		Percentage
	<u>2007</u>	<u>2006</u>	<u>Change</u>
General obligation bonds payable	\$ 125,000	\$ 240,000	(47.9) %
Three mill notes payable	413,783	613,217	(32.5) %

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

Obligations under capital leases	91,677	126,160	(27.3) %
Qualified zone academy bonds payable	500,000	500,000	0.0 %
Compensated absences payable	<u>70,972</u>	<u>99,671</u>	(28.8) %
<b>Total</b>	<b><u>\$ 1,201,432</u></b>	<b><u>\$ 1,579,048</u></b>	<b>(23.9) %</b>

### **CURRENT ISSUES**

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

The District has committed itself to financial excellence for many years. In addition, the District's system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

If you have questions about this report, contact the Superintendent's Office of the South Pike School District, P. O. Box 71, Magnolia, MS 39652.

SOUTH PIKE SCHOOL DISTRICT

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SOUTH PIKE SCHOOL DISTRICT

FINANCIAL STATEMENTS

SOUTH PIKE SCHOOL DISTRICT

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SOUTH PIKE SCHOOL DISTRICT  
Statement of Net Assets  
June 30, 2007

Exhibit A

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 4,843,809
Due from other governments	479,435
Inventories	33,810
Restricted assets	206,086
Capital assets, non-depreciable:	
Land	284,872
Construction in progress	471,301
Capital assets, net of accumulated depreciation:	
Buildings	4,514,261
Building improvements	872,242
Improvements other than buildings	31,905
Mobile equipment	1,131,816
Furniture and equipment	371,532
Leased property under capital leases	<u>154,000</u>
<b>Total Assets</b>	<u>13,395,069</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	1,028,657
Deferred revenue	6,464
Interest payable on long-term liabilities	11,758
Long-term liabilities, due within one year	
Capital related liabilities	365,081
Non-capital related liabilities	7,097
Long-term liabilities, due beyond one year	
Capital related liabilities	765,379
Non-capital related liabilities	<u>63,875</u>
<b>Total Liabilities</b>	<u>2,248,311</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	6,701,469
Restricted net assets:	
Expendable:	
School - based activities	579,695
Debt service	418,761
Capital improvements	295,259
Forestry improvements	198,436
Unemployment benefits	22,451
Non-expendable:	
Sixteenth section	582,110
Other	5,318
Unrestricted	<u>2,343,259</u>
<b>Total Net Assets</b>	<u>\$ 11,146,758</u>

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

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

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Instruction	\$ 9,420,627	\$ 205,407	\$ 1,908,877	\$ -	\$ (7,306,343)
Support services	8,180,390	-	1,192,954	-	(6,987,436)
Non-instructional	1,141,220	108,168	991,749	-	(41,303)
Sixteenth section	82,754	767	-	-	(81,987)
Interest and other expenses on long-term liabilities	25,115	-	-	-	(25,115)
<b>Total Governmental Activities</b>	<b>\$18,850,106</b>	<b>\$ 314,342</b>	<b>\$4,093,580</b>	<b>\$ -</b>	<b>(14,442,184)</b>

General Revenues:

Taxes:

General purpose levies 2,997,000

Debt purpose levies 341,260

Unrestricted grants and contributions:

State 9,103,035

Federal 631,994

Unrestricted investment earnings 280,588

Sixteenth section sources 152,640

Other 210,666

Total General Revenues 13,717,183

Change in Net Assets (725,001)

Net Assets - Beginning 12,204,636

Prior Period Adjustments (332,877)

Net Assets - Beginning - Restated 11,871,759

Net Assets - Ending \$ 11,146,758

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

SOUTH PIKE SCHOOL DISTRICT  
Balance Sheet - Governmental Funds  
June 30, 2007

Exhibit C

	Major Funds				Total Governmental Funds
	General Fund	School Construction Fund	Osyka Classroom Addition Fund	Other Governmental Funds	
<b>ASSETS</b>					
Cash and cash equivalents	\$ 2,733,790	\$ 406,770	\$ 217,623	\$ 1,617,736	\$ 4,975,919
Cash with fiscal agents	-	-	-	1,085	1,085
Investments	-	-	-	72,891	72,891
Due from other governments	161,675	-	-	317,760	479,435
Due from other funds	568,947	-	-	11,424	580,371
Advance to other funds	-	-	-	450,000	450,000
Inventories and prepaid items	-	-	-	33,810	33,810
<b>Total Assets</b>	<b>3,464,412</b>	<b>406,770</b>	<b>217,623</b>	<b>2,504,706</b>	<b>6,593,511</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable and accrued liabilities	589,296	56,770	217,623	164,968	1,028,657
Due to other funds	10,885	350,000	-	219,486	580,371
Advances from other funds	450,000	-	-	-	450,000
Deferred revenue	-	-	-	6,464	6,464
<b>Total Liabilities</b>	<b>1,050,181</b>	<b>406,770</b>	<b>217,623</b>	<b>390,918</b>	<b>2,065,492</b>
<b>Fund Balances:</b>					
<b>Reserved for:</b>					
Advances	-	-	-	450,000	450,000
Inventory	-	-	-	33,810	33,810
Ad valorem	126,363	-	-	-	126,363
Capital projects	-	-	-	295,259	295,259
Debt service	-	-	-	430,519	430,519
Unemployment benefits	-	-	-	22,451	22,451
Forestry improvements purposes	-	-	-	198,436	198,436
Permanent fund purposes	-	-	-	137,428	137,428
<b>Unreserved:</b>					
<b>Undesignated, reported in:</b>					
General fund	2,287,868	-	-	-	2,287,868
Special Revenue funds	-	-	-	545,885	545,885
<b>Total Fund Balances</b>	<b>2,414,231</b>	<b>-</b>	<b>-</b>	<b>2,113,788</b>	<b>4,528,019</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 3,464,412</b>	<b>\$ 406,770</b>	<b>\$ 217,623</b>	<b>\$ 2,504,706</b>	<b>\$ 6,593,511</b>

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

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

Exhibit C-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 4,528,019
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets are used in governmental activities and are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$5,557,343.	7,831,929
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(1,201,432)
3. Governmental funds recognize interest on long-term debt when it becomes due, however the Statement of Net Assets recognizes interest as it accrues.	<u>(11,758)</u>
Total Net Assets - Governmental Activities	<u>\$ 11,146,758</u>

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

## SOUTH PIKE SCHOOL DISTRICT

Exhibit D

## Statement of Revenues, Expenditures and Changes in Fund Balances

## Governmental Funds

For the Year Ended June 30, 2007

	Major Funds				Total Governmental Funds
	General Fund	School Construction Fund	Osyka Classroom Addition Fund	Other Governmental Funds	
Revenues:					
Local sources	\$ 3,199,000	\$ 7,366	\$ -	\$ 851,311	\$ 4,057,677
State sources	8,873,311	-	-	641,020	9,514,331
Federal sources	694,988	-	-	3,619,290	4,314,278
Sixteenth section sources	-	-	-	189,050	189,050
Total Revenues	<u>12,767,299</u>	<u>7,366</u>	<u>-</u>	<u>5,300,671</u>	<u>18,075,336</u>
Expenditures:					
Instruction	7,172,797	-	-	2,123,895	9,296,692
Support services	5,917,334	1,110,492	-	1,371,341	8,399,167
Noninstructional services	56	-	-	1,130,306	1,130,362
Sixteenth section	-	-	-	82,754	82,754
Facilities acquisition and construction	512,685	3,110	468,191	-	983,986
Debt service:					
Principal	34,483	-	-	314,434	348,917
Interest	4,152	-	-	25,377	29,529
Other	-	-	-	1,935	1,935
Total Expenditures	<u>13,641,507</u>	<u>1,113,602</u>	<u>468,191</u>	<u>5,050,042</u>	<u>20,273,342</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(874,208)</u>	<u>(1,106,236)</u>	<u>(468,191)</u>	<u>250,629</u>	<u>(2,198,006)</u>
Other Financing Sources (Uses):					
Insurance loss recoveries	-	-	-	22,506	22,506
Sale of transportation equipment	1,427	-	-	-	1,427
Sale of other property	31,033	-	-	-	31,033
Operating transfers in	662,145	1,106,236	468,191	333,645	2,570,217
Payments held by escrow agents	-	-	-	35,650	35,650
Operating transfers out	(1,184,230)	-	-	(1,385,987)	(2,570,217)
Payment to QZAB debt escrow agent	-	-	-	(35,650)	(35,650)
Total Other Financing Sources (Uses)	<u>(489,625)</u>	<u>1,106,236</u>	<u>468,191</u>	<u>(1,029,836)</u>	<u>54,966</u>
Net Change in Fund Balances	(1,363,833)	-	-	(779,207)	(2,143,040)
Fund Balances:					
July 1, 2006	3,778,064	-	-	2,873,726	6,651,790
Increase in reserve for inventory	-	-	-	19,269	19,269
June 30, 2007	<u>\$ 2,414,231</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,113,788</u>	<u>\$ 4,528,019</u>

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

SOUTH PIKE SCHOOL DISTRICT  
 Reconciliation of the Governmental Funds Statement of Revenues,  
 Expenditures and Changes in Fund Balances to the Statement of Activities  
 For the Year Ended June 30, 2007

Exhibit D-1

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$(2,143,040)
Amounts reported for governmental activities in the Statement of Activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital asset purchases amounted to \$1,718,316 and the depreciation expense amounted to \$678,359.	1,039,957
2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Activities.	348,917
3. Governmental funds recognize interest on long-term debt when it becomes due, however, the Statement of Activities recognizes interest as it accrues regardless of when it becomes due.	6,349
4. Gains and losses on the sale or disposals of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds.	(25,152)
5. Increase in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are decreased in the Statement of Activities.	19,269
6. Expenses in the Statement of Activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds:	
Compensated absences	<u>28,699</u>
Change in Net Assets of Governmental Activities	<u>\$ (725,001)</u>

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

SOUTH PIKE SCHOOL DISTRICT  
Statement of Fiduciary Net Assets  
June 30, 2007

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ <u>27,918</u>
Total Assets	<u>27,918</u>
Liabilities	
Due to student clubs	<u>27,918</u>
Total Liabilities	<u>\$ 27,918</u>

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

# SOUTH PIKE SCHOOL DISTRICT

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

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

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

#### A. Financial Reporting Entity.

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

#### B. Basis of Presentation.

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

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

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

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

##### *Fund Financial Statements:*

Fund financial statements of the school district are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a

# SOUTH PIKE SCHOOL DISTRICT

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

separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category.

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

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

In the fund financial statements, governmental funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Property taxes, state appropriations and federal awards associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

The school district reports the following major governmental funds:

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.

School Construction Fund – This is a capital projects fund that accounts for funds transferred from governmental funds to be used for the acquisition, construction or renovation of major capital facilities.

Osyka Classroom Addition Fund – This is a capital projects fund that accounts for funds transferred from governmental funds to be used for the construction of the new classroom building at Osyka Elementary School.

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:

# SOUTH PIKE SCHOOL DISTRICT

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

### GOVERNMENTAL FUNDS

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

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

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

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

### FIDUCIARY FUNDS

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

#### D. Account Classifications.

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

#### E. Encumbrances.

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

#### F. Cash and Cash Equivalents.

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

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

# SOUTH PIKE SCHOOL DISTRICT

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

### G. Investments.

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

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

Investments are reported at fair value.

### H. Inventories and Prepaid Items.

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

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

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

### I. Capital Assets.

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

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

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

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

SOUTH PIKE SCHOOL DISTRICT

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

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

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

J. Long-term Liabilities.

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

K. Interfund Transactions and Balances.

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

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

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

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

SOUTH PIKE SCHOOL DISTRICT

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

L. Equity Classifications.

*Government-wide Financial Statements:*

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

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

*Fund Financial Statements:*

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

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

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

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

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

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

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

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

## SOUTH PIKE SCHOOL DISTRICT

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

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

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

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

#### M. Property Taxes.

Ad valorem property taxes are levied by the governing authority of the 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, Cash with Fiscal Agents, and Investments.

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

Deposits. The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the school district's deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected

## SOUTH PIKE SCHOOL DISTRICT

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

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, and open-end or closed-end any management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration. Investment income on bond funds (Capital Projects Funds), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Amounts less than \$100 can be credited to the General Fund.

#### Cash and Cash Equivalents.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$4,975,919 and \$27,918, respectively. The carrying amount of deposits reported in the government-wide financial statements was cash and cash equivalents of \$4,843,809 and a portion of restricted assets in the amount of \$132,110. The portion of restricted assets in the amount of \$132,110 represents the cash balance of the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$5,780,861.

*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 \$5,780,861 was exposed to custodial credit risk.

#### Cash with Fiscal Agents.

The carrying amount of the school district's cash with fiscal agents held by financial institutions was \$1,085. The cash with fiscal agents is reported in the QZAB Debt Retirement Fund and is legally restricted and may not be used for purposes that support the district's programs. Therefore, the carrying amount of cash with fiscal agents in this fund is included as a portion of Restricted Assets in the government-wide financial statements.

SOUTH PIKE SCHOOL DISTRICT

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

Investments.

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

<u>Investment Type</u>	<u>Maturities(in years)</u>	<u>Fair Value</u>	<u>Rating</u>
U.S. Agency Obligations	Less than 1	\$ 72,891	AAA
Total Investments		<u>\$ 72,891</u>	

Investments reported in the QZAB Debt Retirement Fund are legally restricted and may not be used for purposes that support the district's programs. Therefore, the carrying amount of investments in this fund in the amount of \$72,891 is included as a portion of Restricted Assets in the government-wide financial statements.

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

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

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

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

<u>Issuer</u>	<u>Fair Value</u>	<u>% of Total Investments</u>
Federal National Mortgage Association	\$ 72,891	100%
	<u>\$ 72,891</u>	

SOUTH PIKE SCHOOL DISTRICT

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

(3) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds.

	Due From	Due To
Governmental Funds:		
General Fund	\$ 568,947	\$ 10,885
School Construction Fund	-	350,000
Other governmental funds	11,424	219,486
<b>Total</b>	<b>\$ 580,371</b>	<b>\$ 580,371</b>

The primary purpose of the interfund loans was to cover federal funds not received prior to year-end and to report excess funds due back to the General Fund from the School Construction Fund.

B. Advances To/From Other Funds.

	Advances To	Advances From
Governmental Funds:		
General Fund	\$ -	\$ 450,000
Other governmental funds	450,000	-
<b>Total</b>	<b>\$ 450,000</b>	<b>\$ 450,000</b>

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

Sixteenth section principal loans payable.

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

Year Ending June 30	Principal	Interest	Total
2008	\$ 45,000	\$ 18,000	\$ 63,000
2009	45,000	16,200	61,200
2010	45,000	14,400	59,400
2011	45,000	12,600	57,600
2012	45,000	10,800	55,800
2013-2017	225,000	27,000	252,000
<b>Total</b>	<b>\$ 450,000</b>	<b>\$ 99,000</b>	<b>\$ 549,000</b>

SOUTH PIKE SCHOOL DISTRICT

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

C. Transfers In/Out.

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
General Fund	\$ 662,145	\$ 1,184,230
School Construction Fund	1,106,236	-
Osyka Classroom Addition Fund	468,191	-
Other governmental funds	<u>333,645</u>	<u>1,385,987</u>
 Total	 <u>\$ 2,570,217</u>	 <u>\$ 2,570,217</u>

The principal purposes of the transfers were to provide funds to pay for debt service payments, provide funds to pay for construction and renovation expenditures in the capital project funds, or to provide funds for daily operations. All interfund transfers were routine and consistent with the activities of the fund making the transfer.

(4) Capital Assets.

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

	<u>Balance 7-1-2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>Completed Construction</u>	<u>Adjustments</u>	<u>Balance 6-30-2007</u>
<u>Non-depreciable capital assets:</u>						
Land	\$ 159,989	128,653	3,770	-	-	284,872
Construction in progress	-	471,301	-	-	-	471,301
 Total non-depreciable capital assets	 <u>159,989</u>	 <u>599,954</u>	 <u>3,770</u>	 <u>-</u>	 <u>-</u>	 <u>756,173</u>
<u>Depreciable capital assets:</u>						
Buildings	7,019,256	338,174	-	-	-	7,357,430
Building improvements	991,184	-	-	-	-	991,184
Improvements other than buildings	66,470	-	-	-	-	66,470
Mobile equipment	2,023,849	293,893	189,781	-	-	2,127,961
Furniture and equipment	1,460,701	486,295	31,942	-	-	1,915,054
Leased property under capital leases	<u>175,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>175,000</u>
 Total depreciable capital assets	 <u>11,736,460</u>	 <u>1,118,362</u>	 <u>221,723</u>	 <u>-</u>	 <u>-</u>	 <u>12,633,099</u>
<u>Less accumulated depreciation for:</u>						
Buildings	2,721,983	129,105	-	-	(7,919)	2,843,169
Building improvements	74,146	39,647	-	-	5,149	118,942
Improvements other than buildings	31,906	2,659	-	-	-	34,565
Mobile equipment	979,562	166,798	170,803	-	20,588	996,145
Furniture and equipment	924,851	333,150	29,538	-	315,059	1,543,522
Leased property under capital leases	<u>14,000</u>	<u>7,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,000</u>
 Total accumulated depreciation	 <u>4,746,448</u>	 <u>678,359</u>	 <u>200,341</u>	 <u>-</u>	 <u>332,877</u>	 <u>5,557,343</u>
 Total depreciable capital assets, net	 <u>6,990,012</u>	 <u>440,003</u>	 <u>21,382</u>	 <u>-</u>	 <u>(332,877)</u>	 <u>7,075,756</u>
 Governmental activities capital assets, net	 <u>\$ 7,150,001</u>	 <u>1,039,957</u>	 <u>25,152</u>	 <u>-</u>	 <u>(332,877)</u>	 <u>7,831,929</u>

SOUTH PIKE SCHOOL DISTRICT

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

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$ 100,245
Support services	535,420
Non-instructional	42,694
Total Depreciation Expense	<u>\$ 678,359</u>

Adjustments were needed to correct accumulated depreciation at fiscal year end to reflect changes made to correct useful lives and/or salvage values of various assets.

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

	<u>Remaining Commitment</u>	<u>Required Future Financing</u>
Osyka Elementary New Classroom Building	\$ 480,017	\$ -
Total	<u>\$ 480,017</u>	<u>\$ -</u>

(5) Long-term Liabilities.

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

	<u>Balance 7-1-2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Adjustments</u>	<u>Balance 6-30-2007</u>	<u>Amounts due within one year</u>
A. General obligation bonds payable	\$ 240,000	-	115,000	-	125,000	125,000
B. Three mill notes payable	613,217	-	199,434	-	413,783	204,370
C. Obligations under capital leases	126,160	-	34,483	-	91,677	35,711
D. Qualified zone academy bonds payable	500,000	-	-	-	500,000	-
E. Compensated absences payable	99,671	-	28,699	-	70,972	7,097
Total	<u>\$ 1,579,048</u>	<u>-</u>	<u>377,616</u>	<u>-</u>	<u>1,201,432</u>	<u>372,178</u>

A. General obligation bonds payable.

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
General obligation bonds, Series 1998	4.0%-4.5%	03-01-1998	03-01-2008	\$ 1,000,000	\$ 125,000

SOUTH PIKE SCHOOL DISTRICT

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

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

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	<u>\$ 125,000</u>	<u>\$ 5,313</u>	<u>\$ 130,313</u>

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

B. Three mill notes payable.

Debt currently outstanding is as follows:

<u>Description</u>	<u>Interest</u> <u>Rate</u>	<u>Issue</u> <u>Date</u>	<u>Maturity</u> <u>Date</u>	<u>Amount</u> <u>Issued</u>	<u>Amount</u> <u>Outstanding</u>
Three mill note	2.475%	09-19-2003	08-15-2008	<u>\$ 1,000,000</u>	<u>\$ 413,783</u>

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

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 204,370	\$ 10,241	\$ 214,611
2009	<u>209,413</u>	<u>5,197</u>	<u>214,610</u>
Total	<u>\$ 413,783</u>	<u>\$ 15,438</u>	<u>\$ 429,221</u>

This debt will be retired from the EEF Buildings and Buses Fund and the Three Mill Notes Retirement Fund.

C. Obligations under capital leases.

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 lighting upgrades at the school facilities.

SOUTH PIKE SCHOOL DISTRICT

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

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest and Maintenance Charges</u>	<u>Total</u>
2008	\$ 35,711	\$ 2,924	\$ 38,635
2009	36,983	1,652	38,635
2010	<u>18,983</u>	<u>335</u>	<u>19,318</u>
Total	<u>\$ 91,677</u>	<u>\$ 4,911</u>	<u>\$ 96,588</u>

The school district uses the straight-line method of amortization for the lease payments which is not in accordance with accounting principles generally accepted in the United States of America. However, the difference between the effective interest method and the straight-line method is not considered material.

This debt will be retired from the District Maintenance Fund.

D. Qualified zone academy bonds payable.

As more fully explained in Note 10, debt has been issued by the school district that qualifies as Qualified Zone Academy bonds. Debt currently outstanding is as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Qualified zone academy bonds	0%	01-15-2005	10-13-2014	\$ 500,000	\$ 500,000

E. Compensated absences payable.

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

(6) Defined Benefit Pension Plan.

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

SOUTH PIKE SCHOOL DISTRICT

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

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 \$1,100,756, \$993,121 and \$854,173, respectively, which equaled the required contributions for each year.

(7) Sixteenth Section Lands.

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

Year Ending <u>June 30</u>	<u>Amount</u>
2008	\$ 23,143
2009	15,944
2010	13,786
2011	12,511
2012	1,955
2013-2017	3,490
2018-2022	2,021
2023-2027	1,381
2028-2032	925
Thereafter	<u>1,465</u>
 Total	 <u>\$ 76,621</u>

(8) Prior Period Adjustments/Exhibits.

A summary of significant fund equity adjustments is as follows:

Exhibit B – Statement of Activities

<u>Explanation</u>	<u>Amount</u>
To correct accumulated depreciation for capital assets at fiscal year end	\$ (332,877)
Total	<u>\$ (332,877)</u>

SOUTH PIKE SCHOOL DISTRICT

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

(9) Risk Management.

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

Participation in Public Entity Risk Pool.

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

(10) Qualified Zone Academy Bonds.

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

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

Year Ending <u>June 30</u>	<u>Amount</u>
2008	\$ 35,000
2009	175,000
2010	<u>74,475</u>
Total	<u>\$ 284,475</u>

SOUTH PIKE SCHOOL DISTRICT

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SOUTH PIKE SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

SOUTH PIKE SCHOOL DISTRICT

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SOUTH PIKE SCHOOL DISTRICT  
 Budgetary Comparison Schedule  
 General Fund  
 For the Year Ended June 30, 2007

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 2,840,861	\$ 3,190,361	\$ 3,199,000	\$ 349,500	\$ 8,639
State sources	8,722,474	8,883,188	8,873,311	160,714	(9,877)
Federal sources	140,591	769,687	694,988	629,096	(74,699)
Total Revenues	<u>11,703,926</u>	<u>12,843,236</u>	<u>12,767,299</u>	<u>1,139,310</u>	<u>(75,937)</u>
Expenditures:					
Instruction	7,194,902	7,328,465	7,172,797	(133,563)	155,668
Support services	5,122,079	6,747,294	5,917,334	(1,625,215)	829,960
Noninstructional services	-	500	56	(500)	444
Facilities acquisition & construction	-	515,510	512,685	(515,510)	2,825
Debt service:					
Principal	34,483	34,483	34,483	-	-
Interest	4,152	4,152	4,152	-	-
Total Expenditures	<u>12,355,616</u>	<u>14,630,404</u>	<u>13,641,507</u>	<u>(2,274,788)</u>	<u>988,897</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(651,690)</u>	<u>(1,787,168)</u>	<u>(874,208)</u>	<u>(1,135,478)</u>	<u>912,960</u>
Other Financing Sources (Uses):					
Sale of transportation equipment	-	1,500	1,427	1,500	(73)
Sale of other property	-	30,000	31,033	30,000	1,033
Operating transfers in	631,202	616,202	662,145	(15,000)	45,943
Operating transfers out	(346,602)	(1,196,602)	(1,184,230)	(850,000)	12,372
Total Other Financing Sources (Uses)	<u>284,600</u>	<u>(548,900)</u>	<u>(489,625)</u>	<u>(833,500)</u>	<u>59,275</u>
Net Change in Fund Balances	<u>(367,090)</u>	<u>(2,336,068)</u>	<u>(1,363,833)</u>	<u>(1,968,978)</u>	<u>972,235</u>
Fund Balances:					
July 1, 2006	<u>2,510,000</u>	<u>4,278,608</u>	<u>3,778,064</u>	<u>1,768,608</u>	<u>(500,544)</u>
June 30, 2007	<u>\$ 2,142,910</u>	<u>\$ 1,942,540</u>	<u>\$ 2,414,231</u>	<u>\$ (200,370)</u>	<u>\$ 471,691</u>

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

SOUTH PIKE 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 Schedule presents the original legally adopted budget, the final legally adopted budget, the actual data on the GAAP basis, variances between the original budget and the final budget, and variances between the final budget and the actual data.

(2) Budget Amendments and Revisions.

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

SOUTH PIKE SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

SOUTH PIKE 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 Fed. Domestic Assistance Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	\$ 66,403
Child nutrition cluster:		
School breakfast program	10.553	264,753
National school lunch program	10.555	627,407
Summer food service program for children	10.559	6,196
Total child nutrition cluster		<u>898,356</u>
Total U.S. Department of Agriculture		<u>964,759</u>
<u>U.S. Department of Defense</u>		
Direct program:		
Reserve Officers' Training Corps	12.xxx	43,438
Total U.S. Department of Defense		<u>43,438</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administration Company:		
The schools and libraries program of the universal service fund	32.xxx	611,164
Total Federal Communications Commission		<u>611,164</u>
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	1,266,772
Vocational education - basic grants to states	84.048	35,353
Safe and drug-free schools and communities - state grants	84.186	32,453
Eisenhower professional development state grants	84.281	34,532
Twenty-first century community learning centers	84.287	92,135
State grants for innovative programs	84.298	4,864
Education technology state grants	84.318	1,305
Comprehensive school reform demonstration	84.332	51,310
Gaining early awareness and readiness in undergraduate programs	84.334	8,160
Teacher quality enhancement grants	84.336	40
Reading first state grants	84.357	231,805
Rural education	84.358	58,800
Improving teacher quality state grants	84.367	260,492
Grants for state assessments and related activities	84.369	11,357
Total		<u>2,089,378</u>
Special education cluster:		
Special education - grants to states	84.027	538,686
Special education - preschool grants	84.173	16,818
Total special education cluster		<u>555,504</u>
Total passed-through Mississippi Department of Education		<u>2,644,882</u>
Total U.S. Department of Education		<u>2,644,882</u>
<u>U.S. Department of Health &amp; Human Services</u>		
Passed-through Mississippi Department of Health and Human Services:		
Medicaid school-based claiming	93.xxx	20,829
Total U.S. Department of Health and Human Services		<u>20,829</u>
Total for All Federal Awards		<u>\$ 4,285,072</u>

Notes to schedule

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

SOUTH PIKE SCHOOL DISTRICT

Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds

For the Year Ended June 30, 2007

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other Student Instructional Expenditures</u>	<u>General Administration</u>	<u>School Administration</u>	<u>Other</u>
Salaries and fringe benefits	\$ 13,406,745	\$ 9,882,370	\$ 638,875	\$ 926,444	\$ 1,959,056
Other	<u>6,866,597</u>	<u>1,135,463</u>	<u>175,456</u>	<u>41,269</u>	<u>5,514,409</u>
Total	<u>\$ 20,273,342</u>	<u>\$ 11,017,833</u>	<u>\$ 814,331</u>	<u>\$ 967,713</u>	<u>\$ 7,473,465</u>
Total number of students	<u>1,854</u>				
Cost per student	<u>\$ 10,935</u>	<u>\$ 5,943</u>	<u>\$ 439</u>	<u>\$ 522</u>	<u>\$ 4,031</u>

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

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

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

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

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

SOUTH PIKE SCHOOL DISTRICT

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SOUTH PIKE SCHOOL DISTRICT

REPORTS ON INTERNAL CONTROLS AND COMPLIANCE

SOUTH PIKE SCHOOL DISTRICT

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

Superintendent and School Board  
South Pike School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of South Pike School District as of and for the year ended June 30, 2007, which collectively comprise South Pike School District's basic financial statements and have issued our report thereon dated November 20, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

MEMBER

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS - MISSISSIPPI SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

South Pike School District  
Report on Compliance and Internal Controls

Findings and Questioned Costs as Finding 2007-1 to be a significant deficiency 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above in Finding 2007-1 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, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the school district in a separate letter dated November 20, 2007, which is included in this report.

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



Cox & Palmer  
November 20, 2007

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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

Superintendent and School Board  
South Pike School District

Compliance

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

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

In our opinion, South Pike 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.

MEMBER

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS - MISSISSIPPI SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

South Pike School District  
Report on Compliance and Internal Controls

Internal Control Over Compliance

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

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

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

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

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



Cox & Palmer  
November 20, 2007

SOUTH PIKE SCHOOL DISTRICT

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

SOUTH PIKE SCHOOL DISTRICT

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COX AND PALMER, P.A.  
CERTIFIED PUBLIC ACCOUNTANTS  
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MENDENHALL, MISSISSIPPI 39114

JOHN H. COX, CPA  
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
STATE LAWS AND REGULATIONS

Superintendent and School Board  
South Pike School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the South Pike School District as of and for the year ended June 30, 2007, which collectively comprise South Pike School District's basic financial statements and have issued our report thereon dated November 20, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Section 37-9-18(3)(a), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure that the school district is complying with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds". As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$ 40,725 of classroom supply funds carried over from previous years.

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

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

MEMBER

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS - MISSISSIPPI SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

South Pike School District  
Report on State Laws and Regulations

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

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

Finding

During our tests of purchasing, the following item was noted:

- Purchase order nos. TR-00193 and TR-000417 were issued to Brumfield Oil. We were unable to determine if the price paid agreed with the bid price.

We were also unable to determine if a bid had been received from Brumfield Oil for the year in question.

Recommendation

The district should comply with section 31-7-13, Miss. Code Ann. (1972), and follow all of the requirements pertaining to purchasing and bid laws. Documentation of all bids should be maintained on file by the school district.

School District's Response

The Transportation Department failed to maintain bids for fuel purchases for the period July 1, 2006 through December 31, 2006. This was an omission on the part of the Transportation Department. Bids were obtained January 1, 2007, however, I concur with the finding that independent verification of prices charged were not maintained on file. The District is now using fuel cards based on a bid currently on file. The current bids specify that the price charged will be based on the mark-up using OPIS as a base price. We will obtain verification of the OPIS index and maintain the documentation on file. The transportation secretary will also periodically compare the fuel prices being charged with the state contract published prices for Fuelman and maintain this documentation on file as additional verification of the validity of the bid.

South Pike School District  
Report on State Laws and Regulations

Finding

Section 71-5-359, Miss. Code Ann. (1972) requires that school districts maintain an amount, not less than two percent (2%), of the covered wages paid during the next preceding year.

During the current year, the Unemployment Compensation Fund cash balance was underfunded by \$22,040.

Recommendation

Section 71-5-359 should be followed.

School District's Response

The district will comply with the recommendation.

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.



Cox & Palmer  
November 20, 2007

SOUTH PIKE SCHOOL DISTRICT

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SOUTH PIKE SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SOUTH PIKE SCHOOL DISTRICT

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SOUTH PIKE SCHOOL DISTRICT

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007

Section 1: Summary of Auditor's Results

**Financial Statements:**

- |    |  |                      |
|----|--|----------------------|
| 1. | Type of auditor's report issued on the financial statements:                                 | <u>Unqualified</u>   |
| 2. | Material noncompliance relating to the financial statements?                                 | <u>No</u>            |
| 3. | Internal control over financial reporting:   |                      |
|    | a. Material weakness(es) identified?   | <u>Yes</u>           |
|    | b. Significant deficiency(ies) identified that are not considered to be material weaknesses? | <u>None Reported</u> |

**Federal Awards:**

- |    |   |                      |
|----|---|----------------------|
| 4. | Type of auditor's report issued on compliance for major federal programs:   | <u>Unqualified</u>   |
| 5. | Internal control over major programs:   |                      |
|    | a. Material weakness(es) identified?  | <u>No</u>            |
|    | b. Significant deficiency(ies) identified that are not considered to be material weaknesses?  | <u>None Reported</u> |
| 6. | Any audit finding(s) reported as required by Section __.510(a) of Circular A-133?   | <u>No</u>            |
| 7. | Federal programs identified as major programs:  |                      |
|    | a. Child Nutrition Cluster:<br>CFDA# 10.553 - School Breakfast Program<br>CFDA# 10.555 - National School Lunch Program<br>CFDA# 10.559 - Summer Food Service Program for Children |                      |
|    | b. The Schools and Libraries Program of the Universal Service Fund.<br>CFDA # 32.XXX  |                      |
| 8. | The dollar threshold used to distinguish between type A and type B Programs:  | <u>\$300,000</u>     |
| 9. | Auditee qualified as a low-risk auditee?  | <u>Yes</u>           |

South Pike School District  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007

10. Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section \_\_.315(b) of OMB Circular A-133? No

Section 2: Financial Statement Findings

Reportable Conditions Considered to be Material Weaknesses

07-01. Finding

A critical aspect of effective financial management is the maintenance of accurate accounting records following generally accepted accounting principles.

The district did not properly record the discounts provided by the Federal Communications Commission grant as administered through Universal Service Administration Company for the School and Libraries Program of the Universal Service Fund "E-Rate" revenues and related expenditures. The district did receive E-Rate revenue through discounted services. Although the district recorded the expenditures resulting from E-Rate discounts as expenditures and the related discounts as revenue, coding errors caused both expenditures and revenues to be overstated by \$75,245.51. Auditors proposed correcting entries which were subsequently made by management.

Generally accepted accounting principles were not followed in recording the revenues and expenditures of the E-Rate grant.

Recommendation

When making purchases utilizing the E-Rate discount process, the district should record the entire amount of the purchase and the related discount as revenue at the time of purchase in order to accurately reflect the actual cost of the purchase and related revenue earned through the E-Rate grant.

Section 3: Federal Award Findings and Questioned Costs

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

SOUTH PIKE SCHOOL DISTRICT

AUDITEE'S CORRECTIVE ACTION PLAN

SOUTH PIKE SCHOOL DISTRICT

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**South Pike School District**

1010 Highway 48 East

Magnolia, MS 39652

Bill Gunnell, Ed. D., Superintendent

**Financial & Compliance Audit Division**

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

Finding

Corrective Action Plan Details

07-01

a. Name of Contact Person Responsible for Corrective Action:

Dana Fleming  
Director of Operations  
(601) 783-3742

b. Corrective Action Planned:

Steps have been taken to clarify the coding process with the Accounts Payable Clerk and this will be monitored by the Director of Operations.

c. Anticipated Completion Date:

Immediately

SOUTH PIKE SCHOOL DISTRICT

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