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PICAYUNE SCHOOL DISTRICT

**Audited Financial Statements
For the Year Ended June 30, 2008**

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

August 18, 2009

Superintendent and School Board
Picayune School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Picayune School District as of and for the year ended June 30, 2008, which collectively comprise the Picayune School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Picayune School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Picayune School District, as of June 30, 2008, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2009, on our consideration of the Picayune School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages (3) through (10) and the Budgetary Comparison Schedules and corresponding notes on pages (37) through (40) are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and

presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

The other supplemental information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances, General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances, All Governmental Fund, Last Four Years, is presented for purposes of additional analysis as required by the Mississippi Department of Education and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

McDaniel CPA Firm

MANAGEMENT'S DISCUSSION AND ANALYSIS

**PICAYUNE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

The discussion and analysis of the Picayune School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2008. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

FINANCIAL HIGHLIGHTS

- Total net assets for 2008 increased \$849,115, including a prior adjustment of (126,193), which represents a 6% increase from fiscal year 2007. Total net assets for 2007 increased \$1,790,007, which represents a 13% increase from fiscal year 2006.
- General revenues account for \$25,756,559 and \$25,420,319 in revenue, or 77% and 76% of all revenues for fiscal years 2008 and 2007 respectively. Program specific revenues in the form of charges for services, grants and contributions accounted for 7,668,211 or 23% of total revenues for 2008 and \$8,219,080 or 24% of total revenues for 2007.
- The District had \$32,449,462 and \$31,783,005 in expenses for fiscal years 2008 and 2007; only \$7,668,211 for 2008 and \$8,219,080 for 2007 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$25,756,559 for 2008 and \$25,420,319 for 2007 were adequate to provide for these programs.
- Among major funds, the General Fund had \$25,604,610 in revenues and \$23,968,568 in expenditures for 2008 and \$23,171,270 in revenues and \$21,643,520 in expenditures in 2007. The General Fund's fund balance decreased by \$321,751 from 2007 to 2008 and increased \$542,813 from 2006 to 2007.
- Capital assets, net of accumulated depreciation, increased by \$676,626 for 2008 and increased \$215,842 for 2007. The increase for 2008 was due to construction in progress at the central office.
- Long-term debt decreased by \$271,308 for 2008 and decreased \$1,076,941 for 2007. This decrease was due to the annual payment on long-term debt outstanding. In addition the liability for compensated absences increased \$14,160 for 2008 and decreased \$21,101 for 2007.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic 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 schedule has been provided for the General Fund and each additional major special revenue major fund.

Additionally, a schedule of expenditures of federal awards as required by OMB Circular A-133 and a schedule of instructional, administrative and other expenditures for governmental funds can be found in this report.

Also, a 4 year comparison for the statement of revenues, expenditures, and changes in fund balances for the general fund and all governmental funds is presented.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$15,850,244 as of June 30, 2008.

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

Table 1 presents a summary of the District's net assets for the fiscal year ended June 30, 2008 and June 30, 2007.

Table 1
Condensed Statement of Net Assets

	June 30, 2008	June 30, 2007	Total Percentage Change
Assets:			
Current assets	\$10,104,585	\$ 9,954,125	1.51%
Capital assets, net	8,970,976	8,294,350	8.16%
Total assets	\$19,075,561	\$18,248,475	4.42%
Liabilities:			
Current liabilities	677,111	441,992	53.20%
Long-term debt outstanding	2,548,206	2,805,354	-9.17%
Total liabilities	\$3,225,317	\$ 3,247,346	-.68%
Net assets:			
Invested in capital assets, net of related debt	6,597,255	5,649,321	16.78%
Restricted	6,079,208	1,645,304	269.49%
Unrestricted	3,173,781	7,706,504	-58.82%
Total net assets	\$15,850,244	\$15,001,129	5.66%

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

- Increase in net capital assets in the amount of \$ 676,626.
- The principal retirement of \$ 271,308 of long-term debt.

Changes in net assets. The District's total revenues for the fiscal years ended June 30, 2008 and June 30, 2007 were \$ 33,424,770 and \$33,639,399, respectively. The total cost of all programs and services for 2008 was \$32,449,462 and \$31,783,005 for 2007. Table 2 presents a summary of the changes in net assets for the fiscal years ended June 30, 2008 and June 30, 2007.

	Change in Net Assets		Percentage Change
	June 30, 2008	June 30, 2007	
Revenues:			
Program Revenues:			
Charges for Services	\$ 987,288	\$ 882,421	11.88%
Operating grants and contributions	6,680,923	7,336,659	-8.94%
General revenues:			
Property taxes	7,219,329	7,275,161	-0.77%
Grants and contributions not restricted	17,702,026	16,198,915	9.28%
Other	835,204	1,946,243	-57.09%
Total revenues	33,424,770	33,639,399	-0.64%
Expenses:			
Instruction	18,488,674	17,362,323	6.49%
Support Services	11,893,090	12,268,387	-3.06%
Non-instructional	1,914,056	1,913,482	0.03%
Sixteenth Section	8,948	58,395	-84.68%
Interest and other expense on long-term liabilities	144,694	180,418	-19.80%
Total expenses	32,449,462	31,783,005	2.10%
Increase (Decrease) in net assets	975,308	1,856,394	-47.46%
Net Assets, July 1	15,001,129	13,211,122	13.55%
Prior period adjustment	(126,193)	(66,387)	-90.09%
Net Assets, July 1 - Restated	14,874,936	13,144,735	13.16%
Net Assets, June 30	\$ 15,850,244	\$ 15,001,129	5.66%

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

	2008		2007	
	Total Expenses	Net(Expense) Revenue	Total Expenses	Net(Expense) Revenue
Instruction	\$ 18,488,674	\$ (14,533,451)	\$ 17,362,323	\$ (13,501,253)
Support Services	11,893,090	(10,057,729)	12,268,387	(9,850,973)
Non-instructional	1,914,058	(36,429)	1,913,482	27,114
Sixteenth section	8,948	(8,948)	58,395	(58,395)
Interest and other expenses on long-term liabilities	144,694	(144,694)	180,418	(180,418)
Total expenses	\$ 32,449,462	\$ (24,781,251)	\$ 31,783,005	\$ (23,583,925)

- Net cost of governmental activities (\$24,781,251 and \$23,563,925) was financed by general revenue, which is made up of primarily property taxes of (\$7,219,329 for 2008 and \$7,275,161 for 2007) and state and federal revenues of (\$17,702,026 for 2008 and \$16,198,915 for 2007). In addition there was \$116,789 and \$158,904 in Sixteenth Section sources for 2008 and 2007, respectively.
- Investment earnings accounted for \$ 393,180 for 2008 and \$262,205 for 2007 of funding.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$9,446,445, an increase of \$56,210, which excludes a prior adjustment of \$(126,193) and the decrease of inventory of \$15,955. \$8,662,698 or 92 % of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$783,747 or 8 % is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was \$321,751. The fund balance of Other Governmental Funds showed an increase in the amount of \$234,693 which includes a prior period adjustment of \$(7,924) and decrease in reserve for inventory of \$15,955.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget. Budget revisions were made to address and correct the original budgets to reflect more accurately the sources and uses of funding for the school district.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2008, the District’s total capital assets were \$14,960,319, including land, school buildings, building improvements, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$1,079,851 from 2007 to 2008. Total accumulated depreciation as of June 30, 2008 was \$5,989,343 and total depreciation expense for the year was \$506,565, resulting in total net assets of \$ 8,970,976.

Capital Assets

	Capital Assets, Net of Depreciation		Percentage Change
	2008	2007	
Land	341,785	334,795	2%
Construction in progress	595,802	-	
Buildings	5,653,383	5,806,371	-3%
Building improvements	64,316	67,701	-5%
Improvements other than buildings	577,783	608,108	-5%
Mobile equipment	1,363,897	1,078,412	26%
Furniture and equipment	363,646	384,868	-6%
Leased property under capital leases	10,364	14,095	-26%
Total	8,970,976	8,294,350	8%

Debt Administration. At June 30, 2008, the District had \$2,508,206 in long-term debt outstanding, of which \$ 196,721 is due within one year. In addition, the liability of compensated absences increased from the prior year.

The District’s bonds are non-rated.

Outstanding Long-Term Debt at June 30, 2008

	Outstanding Debt		Percentage Change
	2008	2007	
Three mill notes payable	1,272,000	1,363,000	-7%
Shortfall notes payable	101,721	274,245	-63%
Obligations under capital leases	-	7,784	-100%
Qualified zone academy bonds payable	1,000,000	1,000,000	0%
Compensated absences payable	174,485	160,325	9%
Total	2,548,206	2,805,354	-9%

CURRENT ISSUES

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

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

The District actively pursues grant funding to supplement the local, state and federal revenue.

Enrollment for the 2007 -2008 year decreased by 1.22 % to 3525 students.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

PICAYUNE SCHOOL DISTRICT
Statement of Net Assets
June 30, 2008

Exhibit A

	<u>Governmental Activities</u>
Assets:	
Cash and cash equivalents	\$ 5,786,908
Cash with fiscal agents	1,046
Investments	1,842,790
Due from other governments	2,335,782
Inventories	16,735
Restricted assets	121,324
Capital assets, non-depreciable	
Land	341,785
Construction in progress	595,802
Capital assets, net of accumulated depreciation:	
Buildings	5,653,383
Building improvements	64,316
Improvements other than buildings	577,783
Mobile equipment	1,363,897
Furniture and equipment	363,646
Leased property under capital leases	10,364
Total assets	<u>19,075,561</u>
Liabilities:	
Accounts payable and accrued liabilities	603,461
Unearned revenue	54,680
Interest payable on long-term liabilities	18,970
Long-term liabilities, due within one year:	
Capital related liabilities	196,721
Long-term liabilities, due beyond one year:	
Capital related liabilities	2,177,000
Non-capital related liabilities	174,485
Total liabilities	<u>3,225,317</u>
Net Assets:	
Investments in capital assets, net of related debt	6,597,255
Restricted net assets:	
Expendable:	
School-based activities	1,241,699
Debt service	606,846
Capital improvements	4,218,472
Unemployment benefits	84,405
Non-expendable:	
Sixteenth section	38,320
Unrestricted	3,063,247
Total net assets	<u>\$ 15,850,244</u>

PICAYUNE SCHOOL DISTRICT
 Statement of Activities
 For the Year Ended June 30, 2008

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Instruction	\$ 18,488,674	401,686	3,553,537		\$ (14,533,451)
Support services	11,893,090	103,260	1,732,101		(10,057,729)
Non-instructional	1,914,056	482,342	1,395,285		(36,429)
Sixteenth section	8,948				(8,948)
Interest on long-term liabilities	144,694				(144,694)
Total governmental activities	\$ 32,449,462	987,288	6,680,923	-	(24,781,251)

General Revenues:

Taxes:	
General purpose levies	6,781,717
Debt purpose levies	437,612
Unrestricted grants and contributions:	
State	17,289,694
Federal	412,332
Unrestricted investment earnings	393,180
Sixteenth section sources	116,789
Other	325,235
Total General Revenues	25,756,559

Change in Net Assets

Change in Net Assets	975,308
Net Assets - Beginning	15,001,129
Prior Period Adjustments	(126,193)
Net Assets - Beginning - Restated	14,874,936
Net Assets - Ending	\$ 15,850,244

PICAYUNE SCHOOL DISTRICT
Balance Sheet - Governmental Funds
June 30, 2008

Exhibit C

	Major Funds				Total Governmental Funds
	General Fund	Title I Basic Fund	Disaster Relief Grant Fund	Other Governmental Funds	
ASSETS					
Cash and cash equivalents	\$ 3,976,434	1,120	-	1,930,679	\$ 5,906,233
Cash with fiscal agents				1,046	1,046
Investments	1,578,505			264,285	1,842,790
Due from other governments	649,863	223,879	1,023,787	438,252	2,335,781
Due from other funds	1,490,726				1,490,726
Inventories				16,735	16,735
Total assets	7,695,528	224,999	1,023,787	2,650,997	11,595,311
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities				234,076	603,460
Due to other funds	257,794	111,590		354,650	1,490,726
Deferred revenue			1,023,787	54,680	54,680
Total liabilities	257,794	223,879	1,023,787	643,406	2,148,866
Fund Balances:					
Reserved for:					
Inventory				16,735	16,735
Capital projects	4,200,001			18,471	4,218,472
Debt service				625,816	625,816
Unemployment benefits				84,405	84,405
Permanent fund purposes				38,320	38,320
Unreserved:					
Undesignated, reported in:					
General Fund	3,237,733	1,120		1,223,844	3,237,733
Special Revenue Funds					1,224,964
Total fund balances	7,437,734	1,120	-	2,007,591	9,446,445
Total liabilities and fund balances	\$ 7,695,528	\$ 224,999	\$ 1,023,787	\$ 2,650,997	\$ 11,595,311

PICAYUNE SCHOOL DISTRICT

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2008

Exhibit C-1

	<u>Amount</u>
Total fund balance - governmental funds	\$ 9,446,445
Amount reported for governmental activities in the statement of net assets are different because:	
1. Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$ 5,989,343.	8,970,976
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(2,548,207)
3. Governmental funds recognize interest on long-term debt when it becomes due, however, the Statement of Net Assets recognizes interest as it accrues.	(18,970)
Total net assets - governmental activities	<u><u>\$ 15,850,244</u></u>

PCAYUNE SCHOOL DISTRICT
 Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 For the Year Ended June 30, 2008

Exhibit D

	Major Funds				Total Governmental Funds
	General Fund	Title I Basic Fund	Disaster Relief Fund	Other Governmental Funds	
Revenues:					
Local sources	\$ 7,750,529			1,058,734	\$ 8,819,263
State sources	17,530,225			627,540	18,157,765
Federal sources	323,856	1,812,211	131,868	3,859,749	6,227,684
Sixteenth section sources				135,188	135,188
Total revenues	25,604,810	1,812,211	131,868	5,791,211	33,339,900
Expenditures:					
Instruction	14,052,649	1,300,551	897	2,866,822	18,321,019
Support services	9,901,007	510,540	134,364	1,832,272	12,178,183
Noninstructional services				1,845,114	1,845,114
Sixteenth section				8,948	8,948
Facilities acquisition and construction	8,960			595,802	602,792
Debt service:					
Principal	7,784			263,524	271,308
Interest	138			63,946	63,984
Other				1,300	1,300
Total expenditures	23,968,568	1,811,091	135,261	7,377,728	33,292,648
Excess (deficiency) of revenues over expenditures	1,636,042	1,120	(3,393)	(1,586,517)	47,252
Other Financing Sources (Uses)					
Insurance loss recoveries	787		3,383		4,180
Sale of transportation equipment	4,778			4,778	4,778
Operating transfers in	121,101			1,966,180	2,087,291
Other financing sources				80,680	80,680
Operating transfers out	(1,966,190)			(121,101)	(2,087,291)
Payment for qualified zone academy bonds				(80,690)	(80,690)
Total other financing sources (uses)	(1,838,524)	-	3,383	1,845,069	8,958
Net change in fund balances	(203,482)	1,120	-	256,572	56,210
Fund Balances:					
July 1, 2007	7,759,485	-	-	1,772,898	9,532,383
Prior period adjustments	(116,269)			(7,924)	(126,193)
July 1, 2007, as restated	7,641,216	-	-	1,764,974	9,406,190
Increase/(Decrease) in reserve for inventory				(15,955)	(15,955)
June 30, 2008	\$ 7,437,734	1,120	-	2,007,591	\$ 9,446,445

PICAYUNE SCHOOL DISTRICT

Reconciliation of Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2008

Exhibit D-1

	<u>Amount</u>
Net change in fund balances - governmental funds	\$ 56,210
Amounts reported for governmental activities in the statement of activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchase amounted to \$ 1,191,250 and the depreciation expense amounted to (\$ 506,565).	684,685
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 activity.	271,308
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.	1,280
4. Gains and losses on the sale or disposals of assets not reported in the governmental funds, but are reported in the statement of activities, net of proceeds.	(8,059)
5. Increase (decrease) in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are (decreased) increased in the statement of activities.	(15,956)
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	(14,160)
 Change in net assets of governmental activities	 <u><u>\$ 975,308</u></u>

PICAYUNE SCHOOL DISTRICT
Statement of Fiduciary Net Assets
June 30, 2008

Exhibit E

	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash and cash equivalents	87,842	1,641,957
Total Assets	<u>87,842</u>	<u>1,841,957</u>
Liabilities		
Accounts payable and accrued liabilities	1,600	1,578,964
Due to student clubs	-	62,993
Total Liabilities	<u>1,600</u>	<u>1,641,957</u>
Net Assets		
Reserved for endowments	86,242	
Total Net Assets	<u>86,242</u>	

PICAYUNE SCHOOL DISTRICT
 Statement of Changes in Fiduciary Net Assets
 For the year ended June 30, 2008

Exhibit F

	<u>Private-Purpose Trust Funds</u>
Additions	
Interest on Investments	\$ 4,922
Contributions and donations from private sources	5,100
Total Additions	<u>10,022</u>
Deductions	
Scholarship awarded	7,447
Total Deductions	<u>7,447</u>
Change in net assets	<u>2,575</u>
Net Assets	
July 1, 2007	<u>83,667</u>
June 30, 2008	<u>\$ 86,242</u>

NOTES TO FINANCIAL STATEMENTS

PICAYUNE SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2008

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

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

A. Financial Reporting Entity.

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

For financial reporting purposes, Picayune School District has included all funds and organizations. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District.

B. Basis of Presentation.

Government-wide Financial Statements:

The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

1. *Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.
2. *Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

PICAYUNE SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2008

3. *Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements:

Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The school district reports the following major governmental funds:

General Fund – This is the school district's primary operating fund. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support, and other costs.

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

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

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

The school district also reports fiduciary funds which focus on net assets and changes in net assets.

The District's fiduciary funds include the following:

Payroll Clearing Fund – This fund serves as a clearing fund for payroll type transactions.

Accounts Payable Clearing Fund – This fund serves as a clearing fund for accounts payable type transactions.

Student Club Funds – These various funds account for the monies raised through school club activities and fund raisers and club related expenditures approved by the individual clubs.

PICAYUNE SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2008

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

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

FIDUCIARY FUNDS

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

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

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 recorded when earned and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and judgments, are recorded only when payment is due.

Federal grants and assistance awards made on the basis of entitlement periods are recorded as receivables and revenues when entitlement occurs. Federal reimbursement

PICAYUNE SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2008

type grants are recorded as revenues when the related expenditures are recognized. Use of grant resources is conditioned upon compliance with terms of the grant agreements and applicable federal regulations, which include subjecting grants to financial and compliance audits.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual.

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

Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

The effect of interfund activity has been eliminated from the government-wide statements.

Revenues from the Mississippi Adequate Education Program Revenues are appropriated on a fiscal year basis and are recorded at the time the revenues are received from the State of Mississippi.

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. Assets, liabilities, and net assets or equity.

- 1. Cash, Cash equivalents and Investments
 - Cash and cash equivalents.

PICAYUNE SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2008

The district's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. 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.

Investments.

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

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

Investments for the district are reported at fair market value.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

3. Due from Other Governments

Due from other governments represents amounts due from the State of Mississippi, and various grants and reimbursements from other governments.

4. Inventories and Prepaid Items.

Donated commodities are received from the USDA and are valued at USDA cost. Other inventories are valued at cost (calculated on the first-in, first-out basis). The costs of governmental fund type inventories are reported as expenditures when purchased.

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

5. Restricted Assets

PICAYUNE SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2008**

Certain resources set aside for repayment of debt are classified as restricted assets on the balance sheet because their use is limited by applicable debt statutes. Also, the nonexpendable portion of the Permanent Fund, if applicable, is classified as restricted assets because the 16th Section Principal fund is not available for use by the district except as provided for under state statute for loans from this account.

6. Capital Assets.

Capital assets, which include property, plant, furniture and equipment, are reported in the governmental activities column in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost or estimated historical cost based on appraisals or deflated current replacement cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the thresholds in the following table and estimated useful lives in excess of two years.

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.

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

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

(*) The threshold amount will correspond with the amounts for the asset classifications, as listed. See Note 5 for details.

7. Compensated Absences.

Employees of the school district accumulate sick leave at a minimum amount as required by state law. A greater amount may be provided by school district policy provided that it does not exceed the provisions for leave as provided in Sections 25-3-93 and 25-3-95. Some employees are allowed personal leave and/or vacation leave in accordance with school district policy. The district pays for

PICAYUNE SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2008**

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.

8. Long-term Liabilities, Deferred Debt Expense, and Bond Discounts/Premiums.

In the government-wide financial statements, outstanding debt is reported as liabilities. Bond issue cost, bond discounts or premiums, and the difference between reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures. See Note 6 for details.

9. Fund equity.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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 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 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.

PICAYUNE SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2008

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

Reserved for permanent fund purposes - An account that represents 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.

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

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

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

PICAYUNE SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2008

The carrying amount of the school district's deposits with financial institution reported in the governmental funds and fiduciary funds was \$ 7,486,739 (which includes \$ 1,578,505 of certificates of deposit with original maturities beyond three months and reported on Exhibit C as investments) and \$ 1,729,799, respectively. The bank balance was \$ 8,372,947.

Custodial Credit Risk - Deposits

Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages the risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2008, none of the district's bank balance of \$ 8,372,947 was exposed to custodial credit risk.

Cash With Fiscal Agents.

The carrying amount of school districts' cash with fiscal agents held by financial institutions was \$ 1,046.

Investments.

As of June 30, 2008, the district had the following investments.

<u>Investment Type</u>	<u>Maturities (In years)</u>	<u>Fair Value</u>	<u>Standard & Poor's Rating</u>
Federal National Mortgage Association Certificates of Deposit (nonnegotiable)	less than 1	\$ 264,285	Not Rated
Government Funds	1	1,578,505	Not Rated
Total Investments		\$ 1,842,790	

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

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

Custodial Credit Risk – Investments. Custodial credit risk is defined as the risk that, in the event of failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The district does

PICAYUNE SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2008

not have a formal investment policy that addresses custodial credit risk. As of June 30, 2008, 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.

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

The following is a summary of interfund transactions and balances:

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

	<u>Due From</u>	<u>Due To</u>
Governmental Funds:		
General fund	\$ 1,490,726	-
Title I Basic fund	-	112,289
Disaster relief fund	-	1,023,787
Other governmental funds	-	354,650
Total Funds	<u>\$ 1,490,726</u>	<u>1,490,726</u>

The purpose of interfund loans was to account for federal funds that were not received until after the year ending 6/30/2008.

B. **Transfers In / Out.**

PICAYUNE SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2008

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
General fund	\$ 121,101	1,966,190
Other governmental funds	1,966,190	121,101
Total Funds	<u>2,087,291</u>	<u>2,087,291</u>

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

(4) **Restricted Assets.**

The restricted assets represent the cash balance, totaling \$ 38,319, 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. In addition, the restricted assets represent the cash balance, totaling \$ 83,005, of the QZAB Bond Retirement Fund.

(5) **Capital Assets.**

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

PICAYUNE SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2008

	Balance 7/1/2007	Additions	Retirements	Completed Construction	Adjustments	Balance 6/30/2008
Non-depreciable capital assets:						
Land	\$ 334,795	6,990				\$ 341,785
Construction in progress		595,802				595,802
Total non-depreciable capital assets	334,795	602,792	-	-	-	937,587
Depreciable capital assets:						
Buildings	8,991,371					8,991,371
Building improvements	84,626					84,626
Improvements other than buildings	758,126					758,126
Mobile equipment	2,764,083	501,541	77,171		(5,174)	3,183,279
Furniture and equipment	918,448	86,917	34,228		5,174	976,311
Leased property under capital leases	29,019					29,019
Total depreciable capital assets	13,545,673	588,458	111,399	-	-	14,022,732
Less accumulated depreciation for:						
Buildings	3,185,000	152,988				3,337,988
Building improvements	16,925	3,385				20,310
Improvements other than buildings	150,018	30,325				180,343
Mobile equipment	1,685,671	203,165	69,454			1,819,382
Furniture and equipment	533,580	112,971	33,886			612,665
Leased property under capital leases	14,924	3,731			-	18,655
Total accumulated depreciation	5,586,118	506,565	103,340	-	-	5,989,343
Total depreciable capital assets, net	7,959,555	81,893	8,059	-	-	8,033,389
Governmental activities capital assets, net	\$ 8,294,350	684,685	8,059	-	-	\$ 8,970,976

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 165,489
Support Services	288,232
Non-instructional	52,844
Total depreciation expense	\$ 506,565

PICAYUNE SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2008

(6) Long-term Liabilities.

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

	Balance 7/1/2007	Additions	Reductions	Balance 6/30/2008	Amounts due within one year
A. Three mill notes payable	\$ 1,363,000		91,000	1,272,000	95,000
B. Shortfall notes payable	274,245		172,524	101,721	101,721
C. Obligations under capital leases	7,784		7,784	-	-
D. Qualified zone academy bonds payable	1,000,000		-	1,000,000	-
E. Compensated absences payable	160,325	14,160	-	174,485	-
Total	\$ 2,805,354	14,160	271,308	2,548,206	196,721

A. Three mill notes payable.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Three mill note	2.7 - 4.2%	8/1/2004	8/1/2018	1,500,000	1,272,000
Total				\$ 1,500,000	\$ 1,272,000

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

PICAYUNE SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2008**

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	95,000	48,040	143,040
2010	99,000	44,741	143,741
2011	104,000	41,136	145,136
2012	109,000	37,220	146,220
2013	114,000	32,982	146,982
2014-2018	653,000	90,308	743,308
2019	98,000	2,058	100,058
Total	\$ 1,272,000	\$ 296,485	\$ 1,568,485

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

B. Shortfall notes payable.

Debt currently outstanding is as follows:

<u>Description</u>	<u>Rate</u>	<u>Date</u>	<u>Date</u>	<u>Issued</u>	<u>Outstanding</u>
2004 shortfall note	3.84%	11/9/2004	11/9/2007	\$ 204,649	\$ -
2005 shortfall note	4.98%	9/19/2005	9/19/2008	\$ 305,164	\$ 101,721
Total				\$ 509,813	\$ 101,721

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	101,721	5,080	106,801
Total	\$ 101,721	\$ 5,080	\$ 106,801

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

C. Obligations under capital lease.

This debt was retired during the current fiscal year.

PICAYUNE SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2008

D. Qualified zone academy bonds payable.

As more fully explained in Note 12, debt has been issued by the school district that qualifies as Qualified Zone Academy bonds. Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
QZAB, Series 2004	0.00%	8/12/2004	6/30/2019	\$ 1,000,000	1,000,000
Total				\$ 1,000,000	1,000,000

E. Compensated absences payable.

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

(7) Defined Benefit Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25 % of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The current rate is 11.85 % 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, 2008, 2007, and 2006 were \$ 2,253,362, \$ 2,019,807 and \$ 1,855,043, respectively, which equaled the required contributions for each year.

(8) Other Commitments.

Operating leases:

The school district has several operating leases for the following:

1. Postage meter at Central Office.
2. Postage meter at Picayune Memorial High School.

PICAYUNE SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2008

- 3. Postage meter at Picayune Junior High.
- 4. Postage meter at Roseland Park Elementary School.

Lease expenditures for the year ended June 30, 2008, amounted to \$ 2,547. Future lease payments for these leases are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2009	<u>112</u>
Total	<u>112</u>

(9) Sixteenth Section Lands.

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

<u>Year Ending June 30</u>	<u>Amount</u>
2009	104,171
2010	90,901
2011	87,699
2012	87,699
2013	83,469
2014-2018	411,962
2019-2023	406,814
2024-2028	405,902
2029-2033	374,473
Thereafter	<u>396,549</u>
Total	<u>\$ 2,449,638</u>

PICAYUNE SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2008**

(10) Prior Period Adjustments / Exhibits.

A summary of significant fund equity adjustments is as follows:

Exhibit B – Statement of Activities

<u>Explanation:</u>	<u>Amount</u>
1. Adjustments related to the recording of prior period transactions.	<u>(126,193)</u>

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

<u>Major Funds:</u>	<u>Explanations</u>	<u>Amount</u>
General Fund	Adjustment related to prior year transaction.	\$ (118,269)
Other governmental funds	Adjustment related to prior year transaction.	<u>(7,924)</u>
	Total	<u>\$ (126,193)</u>

(11) Risk Management.

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

(12) Qualified Zone Academy Bonds.

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

This agreement establishes a method of repayment for a qualified interest-free debt instrument. The agreement requires the school district to deposit funds annually into a sinking fund account on or before October 16 of each year for ten years with Trustmark National Bank. The amount accumulated in the sinking fund at the end of the ten-year period will be sufficient to retire the debt. The district contributed \$ 80,690 to the sinking fund during the year. The following schedule reports the yearly deposits to be made to the sinking fund by the school district.

PICAYUNE SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2008

<u>Year Ending June 30</u>	<u>Amount</u>
2009	80,690
2010	80,690
2011	80,690
2012	80,690
2013	80,690
2014-2018	403,450
2019	31,720
	<u>\$ 838,620</u>

REQUIRED SUPPLEMENTARY INFORMATION

PICAYUNE SCHOOL DISTRICT
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2008

Schedule 1

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	7,714,523	7,750,529	7,750,529	36,006	-
State sources	17,450,000	17,530,225	17,530,225	80,225	-
Federal sources	295,845	323,856	323,856	28,011	-
Total Revenues	25,460,368	25,604,610	25,604,610	144,242	-
Expenditures:					
Instruction	14,100,210	14,052,649	14,052,649	47,561	-
Support services	9,925,147	9,901,007	9,901,007	24,140	-
Facilities acquisition and construction	8,100	6,990	6,990	1,110	-
Debt service:					
Principal	10,000	7,784	7,784	2,216	-
Interest	1,000	138	138	862	-
Total Expenditures	24,044,457	23,968,568	23,968,568	75,889	-
Excess (deficiency) of revenues over expenditures	1,415,911	1,636,042	1,636,042	220,131	-
Other Financing Sources (Uses)					
Insurance loss recoveries	500	787	787	287	-
Sale of transportation equipment	4,000	4,778	4,778	778	-
Operating transfers in	120,000	121,101	121,101	1,101	-
Operating transfers out	(1,970,000)	(1,966,190)	(1,966,190)	3,810	-
Total Other Financing Sources (Uses)	(1,845,500)	(1,839,524)	(1,839,524)	5,976	-
Net change in fund balances	(429,589)	(203,482)	(203,482)	226,107	-
Fund Balances:					
July 1, 2007	7,759,485	7,759,485	7,759,485	-	-
Prior period adjustments	-	(118,269)	(118,269)	(118,269)	-
July 1, 2007, as restated	7,759,485	7,641,216	7,641,216	(118,269)	-
June 30, 2008	7,329,896	7,437,734	7,437,734	107,838	-

PICAYUNE SCHOOL DISTRICT
 Budgetary Comparison Schedule
 Title I Basic Fund
 For the Year Ended June 30, 2008

Schedule 2

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	1,812,211	1,812,211	1,812,211	-	-
Total Revenues	1,812,211	1,812,211	1,812,211	-	-
Expenditures:					
Instruction	1,300,551	1,300,551	1,300,551	-	-
Support services	510,540	510,540	510,540	-	-
Total Expenditures	1,811,091	1,811,091	1,811,091	-	-
Excess (deficiency) of revenues over expenditures	1,120	1,120	1,120	-	-
Other Financing Sources (Uses)					
Total Other Financing Sources (Uses)	-	-	-	-	-
Net change in fund balances	1,120	1,120	1,120	-	-
Fund Balances:					
July 1, 2007	-	-	-	-	-
June 30, 2008	1,120	1,120	1,120	-	-

PICAYUNE SCHOOL DISTRICT
 Budgetary Comparison Schedule
 Disaster Relief Grant Fund
 For the Year Ended June 30, 2008

Schedule 3

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	131,868	131,868	131,868	-	-
Total Revenues	131,868	131,868	131,868	-	-
Expenditures:					
Instruction	897	897	897	-	-
Support services	134,364	134,364	134,364	-	-
Total Expenditures	135,261	135,261	135,261	-	-
Excess (deficiency) of revenues over expenditures	(3,393)	(3,393)	(3,393)	-	-
Other Financing Sources (Uses)					
Insurance loss recoveries	3,393	3,393	3,393	-	-
Total Other Financing Sources (Uses)	3,393	3,393	3,393	-	-
Net change in fund balances	-	-	-	-	-
Fund Balances:					
July 1, 2007	-	-	-	-	-
June 30, 2008	-	-	-	-	-

PICAYUNE SCHOOL DISTRICT

Notes to the Required Supplemental Information
For the Year Ended June 30, 2008

Budgetary Comparison Schedule

(1) **Basis of Presentation.**

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

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

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

SUPPLEMENTAL INFORMATION

PICAYUNE SCHOOL DISTRICT
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2008

Federal Grantor / Pass-through Grantor / Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Wildlife services	10.028	\$ 22,855
Passed - through Mississippi Department of Education:		
Child Nutrition Cluster:		
School breakfast program	10.553	345,216
National school lunch program	10.555	1,034,131
Summer food service program for children	10.558	41,104
Total child nutrition cluster		<u>1,420,451</u>
Passed-through Picayune Board of Supervisors		
Schools and roads - grants to state	10.685	38,855
Total U.S. Department of Agriculture		<u>1,483,061</u>
<u>U.S. Department of Defense</u>		
Direct program:		
Reserve Officers' Training Corps	12.XXX	44,423
Total U.S. Department of Defense		<u>44,423</u>
<u>Federal Communication Commission</u>		
Administered -through Universal Service Administrative Company:		
The schools and libraries program of the Universal Service Fund	32.XXX	226,604
Total Federal Communication Commission		<u>226,604</u>
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	1,811,081
Vocational education - basic grants to states	84.048	55,844
Education for homeless children and youth	84.198	51,875
State grants for innovative programs	84.298	5,884
Education technology state grants	84.318	28,064
Rural education	84.358	158,398
Improving teacher quality - state grants	84.387	338,812
Total		<u>2,448,568</u>
Special education cluster:		
Special education - grants to states	84.027	723,857
Special education - preschool grants	84.173	40,825
Total special education cluster		<u>764,682</u>
Total Passed-through Mississippi Department of Education		<u>3,213,050</u>
Total U.S. Department of Education		<u>3,213,050</u>
<u>U.S. Department of Health and Human Services</u>		
Passed-through the Administration for Children and Families, Department of Health and Human Services:		
Head Start	93.800	981,756
Total		<u>981,756</u>
Passed-through the Mississippi Department of Education:		
Medical assistance program	93.776	118,902
Total passed-through Mississippi Department of Education		<u>118,902</u>
Total U.S. Department of Health and Human Services		<u>1,108,658</u>
<u>U.S. Department of Homeland Security</u>		
Passed through the Mississippi Emergency Management Agency:		
Disaster grants - public assistance (Presidentially declared disasters)	97.036	131,868
Total Department of Homeland Security		<u>131,868</u>
Total for All Federal Awards		<u>\$ 8,207,664</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.

Picayune School District
 Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
 For the Year Ended June 30, 2008

Expenditures	Total	Instruction and Other Student Instructional Expenditures			
		General Administration	School Administration	Other	
Salaries and fringe benefits	\$ 25,668,853	881,216	1,847,403	3,966,978	
Other	7,623,795	304,690	68,455	4,872,863	
Total	33,292,648	1,185,906	1,915,858	8,839,841	
Total number of students *		3,525			
Cost per student \$		9,445			
		336		544	
		2,508			

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

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

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

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

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

* include the number of students reported on the ADA report submission for month 9, which is the final submission for the fiscal year include 100 and 200 range object codes on the "Salaries and fringe benefits" line; all other expenditures on the "Other" line

OTHER SUPPLEMENTAL INFORMATION

PICAYUNE SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

"UNAUDITED"

General Fund

Last Four Years

	2008	2007*	2006*	2005*
Revenues:				
Local sources	\$ 7,750,529	6,960,790	6,593,042	5,930,918
State sources	17,530,225	16,013,974	15,719,452	14,476,539
Federal sources	323,856	196,506	157,648	103,872
Total Revenues	25,604,610	23,171,270	22,470,142	20,511,329
Expenditures:				
Instruction	14,052,649	12,954,883	8,269,628	12,357,726
Support services	9,901,007	8,483,537	7,614,458	7,680,900
Facilities acquisition and construction	6,990	155,000		
Debt service:				
Principal	7,784	48,935	95,026	851,937
Interest	138	1,165	5,525	19,023
Total Expenditures	23,968,568	21,643,520	15,984,637	20,909,586
Excess (Deficiency) of Revenues over Expenditures	1,636,042	1,527,750	6,485,505	(398,257)
Other Financing Sources (Uses):				
Proceeds of loans			305,164	954,649
Insurance loss recoveries	787	2,174	10,307	45,384
Sale of transportation equipment	4,778	1,776	15,401	
Operating transfers in	121,101			4,042,795
Operating transfers out	(1,966,190)	(977,944)	(978,995)	(4,009,271)
Total Other Financing Sources (Uses)	(1,839,524)	(973,994)	(648,123)	1,033,557
Net Change in Fund Balances	(203,482)	553,756	5,837,382	635,300
Fund Balances:				
Fund balance, July 1	7,759,485	7,216,672	1,350,986	725,686
Prior period adjustments	(118,269)	(10,943)	28,304	(10,000)
Fund balance, July 1, restated	7,641,216	7,205,729	1,379,290	715,686
Fund balance, June 30	\$ 7,437,734	7,759,485	7,216,672	1,350,986

*SOURCE - PRIOR YEAR AUDIT REPORTS

PICAYUNE SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

"UNAUDITED"

All Governmental Funds

Last Four Years

	2008	2007*	2006*	2005*
Revenues:				
Local sources	\$ 8,819,283	9,006,362	6,213,329	7,712,943
State sources	18,157,765	16,724,520	16,429,456	18,080,480
Federal sources	6,227,684	6,811,053	10,585,688	4,624,525
Sixteenth section sources	135,188	171,393	133,242	136,518
Total Revenues	33,339,900	32,713,348	35,361,715	28,554,466
Expenditures:				
Instruction	18,321,019	17,277,692	16,317,460	15,814,757
Support services	12,178,183	12,497,152	10,436,456	11,787,132
Noninstructional services	1,845,114	1,860,849	1,673,211	1,592,576
Sixteenth section	8,948	58,396	33,391	12,877
Facilities acquisition and construction	602,792	155,000	479,916	286,818
Debt service				
Principal	271,308	1,055,840	945,689	1,571,937
Interest	63,984	105,423	149,768	109,238
Other	1,300		1,500	
Total Expenditures	33,292,848	33,010,352	30,037,393	31,175,335
Excess (Deficiency) of Revenues over Expenditures	47,252	(297,004)	5,324,322	(2,620,869)
Other Financing Sources (Uses):				
Proceeds of loans			305,164	3,454,649
Insurance loss recoveries	4,180	845,362	407,967	45,384
Sale of transportation equipment	4,778	1,776	15,401	
Sale of other property		149		
Operating transfers in	2,087,291	1,203,316	1,100,330	5,314,914
Other financing sources	80,690	80,690		
Operating transfers out	(2,087,291)	(1,203,318)	(1,100,330)	(5,314,914)
Payment for qualified zone academy bonds	(80,690)	(80,690)		
Total Other Financing Sources (Uses)	8,958	847,287	728,532	3,500,033
Net Change in Fund Balances	56,210	550,283	6,052,854	879,164
Fund Balances:				
Fund balance, July 1	9,532,383	9,040,854	2,996,316	2,117,144
Prior period adjustments	(126,193)	(66,391)	(19,074)	
Fund balance, July 1, as restated	9,406,190	8,974,463	2,977,242	2,117,144
Increase (Decrease) in reserve for inventory	(15,955)	7,637	10,758	8
Fund balance, June 30	\$ 9,446,445	9,532,383	9,040,854	2,998,316

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

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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*

August 18, 2009

Superintendent and School Board
Picayune School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Picayune School District as of and for the year ended June 30, 2008, which collectively comprise the Picayune School District's basic financial statements and have issued our report thereon dated August 18, 2009. 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 findings and questioned costs as Finding 2008-1 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 believe that the significant deficiency described above is not 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 disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Picayune School District's response to the finding identified in our audit is described in the accompanying Auditee's Corrective Action Plan. We did not audit Picayune School District's response and, accordingly, we express no opinion on it.

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

McDaniel CPA Firm

McDaniel CPA Firm
Certified Public Accountant / Financial Consultant

Scotty McDaniel, CPA

MEMBER

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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

August 18, 2009

Superintendent and School Board
Picayune School District

Compliance

We have audited the compliance of the Picayune School District with the types of compliance requirements described in *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The school district's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the school district's management. Our responsibility is to express an opinion on the school district's compliance based on our audit.

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

In our opinion, Picayune School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

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

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

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

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

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

McDaniel CPA Firm

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Certified Public Accountant / Financial Consultant

Scotty McDaniel, CPA

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

August 18, 2009

Superintendent and School Board
Picayune School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Picayune School District as of and for the year ended June 30, 2008, which collectively comprise Picayune School District's basic financial statements and have issued our report thereon dated August 18, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instance of noncompliance. The district reported \$ 88,520 of classroom supply funds carried over from previous years.

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

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

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

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

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

McDaniel CPA Firm

PICAYUNE SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008

Section 1: Summary of Auditor's Results

Financial Statements:

- | | | |
|-----|--|-------------|
| 1 . | Type of auditor's report issued on the financial statements: | unqualified |
| 2 . | Material noncompliance relating to the financial statements? | no |
| 3 . | Internal control over financial reporting: | |
| a. | Material weakness(es) identified? | no |
| b. | Significant deficiency (ies) identified that are not considered to be material weaknesses? | yes |

Federal Awards:

- | | | |
|------|---|---------------|
| 4 . | Type of auditor's report issued on compliance for major federal programs: | unqualified |
| 5 . | Internal control over major programs: | |
| a. | Material weakness(es) identified? | no |
| b. | Significant deficiency (ies) identified that are not considered to be material weaknesses? | none reported |
| 6 . | Any audit finding(s) reported as required by section ____ .510(a) of Circular A-133? | no |
| 7 . | Federal programs identified as major programs: | |
| | a. Child Nutrition Cluster | |
| | CFDA# 10.553 | |
| | CFDA# 10.555 | |
| | b. Title I grants to local educational agencies | |
| | CFDA # 84.010 | |
| 8 . | The dollar threshold used to distinguish between type A and type B programs: | \$ 300,000 |
| 9 . | Auditee qualified as a low-risk auditee? | no |
| 10 . | Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in section ____ .315(b) of OMB Circular A-133? | no |

Section 2: Financial Statement Findings

Significant Deficiency Not Considered to be a Material Weakness.

2008-1. Finding

During the review of certain investment accounts we found one instance where interest income was not recorded for interest earned during the current year.

Recommendation

We recommend that the district review each investment balance at year-end to ensure that all interest income is recorded on the books and records .

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.

Auditee's Corrective Action Plan

Financial Compliance & Audit Division

As required by Section ____315(c) of OMB Circular A-133, the Picayune 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, 2008.

<u>Finding</u>	<u>Corrective Action Plan Details</u>
2008-1	<p>a. Name of Contact Persons Responsible for Corrective Action:</p> <p style="padding-left: 40px;">Lisa Penton, Business Manager (601) 798-3230</p> <p>b. Corrective Action Planned:</p> <p style="padding-left: 40px;">The district will implement procedures to ensure that all interest income is recorded in the correct fiscal year.</p> <p>c. Anticipated Completion Date: Completed.</p>