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PETAL SCHOOL DISTRICT
Audited Financial Statements
For the Year Ended June 30, 2011



PETAL SCHOOL DISTRICT
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Mississippi Society
of Certified Public
Accountants

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

October 5, 2012

Superintendent and School Board
Petal School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Petal School District as of and for the year ended June 30, 2011, which collectively comprise Petal School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Petal School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 Petal School District, as of June 30, 2011, 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 October 5, 2012, on our consideration of the Petal School District's internal control over financial reporting and our tests of its

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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Petal School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards and the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Petal School District's basic financial statements. The other 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 Funds, 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 do not express an opinion or provide any assurance on it.

McDaniel CPA Firm

MANAGEMENT'S DISCUSSION AND ANALYSIS



PETAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

The following discussion and analysis of Petal School District's financial performance provides an overview of the School District's financial activities for the year ended June 30, 2011. The intent of this discussion and analysis is to look at the School District's performance as a whole. Readers are encouraged to review the financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

- Total net assets for 2011 increased \$919,025, including a prior period adjustment of \$99,273, which represents a 3% increase from fiscal year 2010. Total net assets for 2010 increased \$1,019,218, which represents a 3% increase from fiscal year 2009.
- General revenues amounted to \$26,399,765 and \$27,597,647, or 78% and 81% of all revenues for fiscal years 2011 and 2010, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$7,282,849, or 22% of total revenues for 2011, and \$6,392,197, or 19% of total revenues for 2010.
- The District had \$32,862,862 and \$32,970,626 in expenses for fiscal years 2011 and 2010; only \$7,282,849 for 2011 and \$6,392,197 for 2010 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$26,399,765 for 2011 and \$27,597,647 for 2010 were adequate to provide for these programs.
- Among major funds, the General Fund had \$24,617,294 in revenues and \$22,588,614 in expenditures for 2011, and \$26,058,040 in revenues and \$24,545,207 in expenditures in 2010. The General Fund's fund balance increased by \$5,532,169 from 2010 to 2011, and increased by \$399,729, including a decrease in inventory of \$21,659, from 2009 to 2010.
- Capital assets, net of accumulated depreciation, decreased by \$136,913 for 2011 and increased by \$6,122,070 for 2010. The decrease for 2011 was due primarily to the increase in accumulated depreciation.
- Long-term debt decreased by \$173,547 for 2011 and increased by \$5,681,742 for 2010. The decrease for 2011 was due primarily to principal payments on outstanding long-term debt. The liability for compensated absences increased by \$62,371 for 2011 and increased by \$114,250 for 2010.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the District's basic financial statements, which include government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains required supplemental information, supplemental information, and other information.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the District's finances. These statements consist of the Statement of Net Assets and the Statement of Activities, which are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets presents information on all the District's nonfiduciary assets and liabilities, with the differences between the two reported as "net assets." Over time, increases or decreases in the District's net assets may serve as a useful indicator of whether its financial position is improving or

PETAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

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 periods.

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

Fund Financial Statements

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

Governmental funds – Most of the District's general activities are reported in its governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, governmental funds are accounted for using the modified accrual basis of accounting and the flow of current financial resources measurement focus. The approach focuses on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at year end. The governmental fund statements provide a detailed view of the District's near-term financing requirements.

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, the reader may gain a better understanding of the long-term impact of the District's near-term financing decisions. The governmental funds Balance Sheet is reconciled to the Statement of Net Assets, and the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances is reconciled to the Statement of Activities 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 funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for all major funds. All non-major funds are combined 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. These funds are reported using the accrual basis of accounting. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Reconciliation of Government-wide and Fund Financial Statements

The financial statements include two schedules that reconcile the amounts reported on the governmental funds financial statements (modified accrual basis of accounting) with government-wide financial statements (accrual basis of accounting). The following summarizes the major differences between the

PETAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

two statements:

Capital assets used in governmental activities are not reported on governmental funds financial statements.

Capital outlay spending results in capital assets on government-wide financial statements, but is reported as expenditures on the governmental funds financial statements.

Bond and note proceeds result in liabilities on government-wide financial statements, but are recorded as other financing sources on the governmental funds financial statements.

Certain other outflows represent either increases or decreases in liabilities on the government-wide financial statements, but are reported as expenditures on the governmental funds financial statements.

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.

Required Supplemental Information

In addition to the basic financial statements and accompanying notes, this report also presents budgetary comparison schedules as required supplemental information. The District adopts an annual operating budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund as required by the Governmental Accounting Standards Board.

Supplemental Information

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.

Other Information

Although not a required part of the basic financial statements, 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 Funds, Last Four Years, is presented for purposes of additional analysis as required by the Mississippi Department of Education.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets

Net assets may serve over time as a useful indicator of the District's financial position. Assets exceeded liabilities by \$35,461,947 as of June 30, 2011.

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.

PETAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

Table 1 presents a summary of the District's net assets at June 30, 2011 and June 30, 2010.

Table 1
Condensed Statement of Net Assets

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Percentage Change</u>
Current assets	\$ 15,169,917	\$ 14,695,439	3.23 %
Restricted assets	664,431	430,207	54.44 %
Capital assets, net	36,992,228	37,129,141	(0.37) %
Total assets	<u>52,826,576</u>	<u>52,254,787</u>	1.09 %
Current liabilities	409,084	582,773	(29.80) %
Long-term debt outstanding	16,955,545	17,129,092	(1.01) %
Total liabilities	<u>17,364,629</u>	<u>17,711,865</u>	(1.96) %
Net assets:			
Invested in capital assets, net of related debt	21,092,228	20,249,659	4.16 %
Restricted	4,306,353	4,553,513	(5.43) %
Unrestricted	10,063,366	9,739,750	3.32 %
Total net assets	<u>\$ 35,461,947</u>	<u>\$ 34,542,922</u>	2.66 %

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

- Decrease in net capital assets in the amount of \$136,913.
- Proceeds from the issuance of shortfall notes payable in the amount of \$743,563.
- The principal retirement of \$1,048,018 of long-term debt.

Changes in net assets

The District's total revenues for the fiscal years ended June 30, 2011 and June 30, 2010 were \$33,682,614 and \$33,989,844, respectively. The total cost of all programs and services was \$32,862,862 for 2011 and \$32,970,626 for 2010.

PETAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

Table 2 presents a summary of the changes in net assets for the fiscal years ended June 30, 2011 and June 30, 2010.

Table 2
Changes in Net Assets

	Year Ended June 30, 2011	Year Ended June 30, 2010	Percentage Change
Revenues:			
Program revenues:			
Charges for services	\$ 1,345,722	\$ 1,518,842	(11.40) %
Operating grants and contributions	5,937,127	4,873,355	21.83 %
General revenues:			
Property taxes	8,094,812	8,667,340	(6.61) %
Grants and contributions not restricted	17,648,463	18,103,203	(2.51) %
Investment earnings	410,075	469,384	(12.64) %
Sixteenth section sources	96,716	105,124	(8.00) %
Other	149,699	252,596	(40.74) %
Total revenues	33,682,614	33,989,844	(0.90) %
Expenses:			
Instruction	17,703,779	18,885,369	(6.26) %
Support services	11,546,095	10,988,989	5.07 %
Non-instructional	3,119,498	2,554,233	22.13 %
Sixteenth section	2,103	23,933	(91.21) %
Interest and other expenses on long-term liabilities	491,387	518,102	(5.16) %
Total expenses	32,862,862	32,970,626	(0.33) %
Increase (Decrease) in net assets	819,752	1,019,218	(19.57) %
Net Assets, July 1, as originally reported	34,542,922	33,523,704	3.04 %
Prior Period Adjustment	99,273	-	N/A %
Net Assets, July 1, as restated	34,642,195	33,523,704	3.34 %
Net Assets, June 30	\$ 35,461,947	\$ 34,542,922	2.66 %

Governmental activities

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

PETAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

**Table 3
Net Cost of Governmental Activities**

	Total Expenses		Percentage Change
	2011	2010	
Instruction	\$ 17,703,779	\$ 18,885,369	(6.26) %
Support services	11,546,095	10,988,989	5.07 %
Non-instructional	3,119,498	2,554,233	22.13 %
Sixteenth section	2,103	23,933	(91.21) %
Interest on long-term liabilities	491,387	518,102	(5.16) %
Total expenses	\$ 32,862,862	\$ 32,970,626	(0.33) %

	Net (Expense) Revenue		Percentage Change
	2011	2010	
Instruction	\$ (14,146,295)	\$ (16,079,752)	(12.02) %
Support services	(10,137,203)	(9,692,341)	4.59 %
Non-instructional	(803,025)	(264,301)	203.83 %
Sixteenth section	(2,103)	(23,933)	(91.21) %
Interest on long-term liabilities	(491,387)	(518,102)	(5.16) %
Total net (expense) revenue	\$ (25,580,013)	\$ (26,578,429)	(3.76) %

- Net cost of governmental activities (\$25,580,013 for 2011 and \$26,578,429 for 2010) was financed by general revenue, which is primarily made up of property taxes (\$8,094,812 for 2011 and \$8,667,340 for 2010) and state and federal revenues (\$17,648,463 for 2011 and \$18,103,203 for 2010). In addition, there was \$96,716 and \$105,124 in Sixteenth Section sources for 2011 and 2010, respectively.
- Investment earnings amounted to \$410,075 for 2011 and \$469,384 for 2010.

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, unassigned 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 \$15,604,001, an increase of \$842,791, which includes a prior period adjustment of \$(153) and an increase in reserve for inventory of \$118. \$3,216,368, or 21%, of the fund balance is unassigned, which represents the residual classification for the general fund's fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The remaining fund balance of \$12,387,633, or 79%, is either nonspendable, restricted, committed or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted, committed or assigned.

PETAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$5,532,169, which includes a prior period adjustment of \$(571). This increase is due primarily to the District's conservative approach to budgeting and spending during the fiscal year and the transfer of funds into the General Fund from various capital project funds. The fund balance of Other Governmental Funds showed a decrease in the amount of \$4,689,378, which includes a prior period adjustment of \$418 and an increase in reserve for inventory of \$118. This decrease is due primarily to the transfer of funds from various capital project funds to the General Fund.

BUDGETARY HIGHLIGHTS

During 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. Significant budget revisions made during the fiscal year are explained as follows:

- Budgeted amounts for revenue from local sources in the General Fund were decreased during the fiscal year to reflect a decrease in ad valorem receipts. Amounts originally budgeted were overstated.
- Budgeted amounts for revenue from state sources in the General Fund were decreased during the fiscal year to reflect a decrease in Mississippi Adequate Education Program (MAEP) funds resulting from budget cuts. However, the District did receive approximately \$1,050,000 in Budget Stabilization funds that were reported in a special revenue fund. The budget was also revised to reflect the federal revenue received and reported in the Budget Stabilization Fund.
- Budgeted amounts for instruction expenditures in the General Fund were decreased during the fiscal year. This decrease is primarily a result of the reclassification of expenditures normally incurred in the General Fund to the Budget Stabilization Fund (special revenue fund) and federal funds were received to cover those expenditures. The budget was also revised to reflect the federal revenue received and expenditures incurred in the Budget Stabilization Fund.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2011, the District's total capital assets were \$49,170,520, including land, school buildings, improvements other than buildings, buses, other school vehicles and furniture and equipment. This amount represents a gross increase of \$1,047,554 from 2010, due primarily to expenditures incurred for the completion of various building projects during the fiscal year. Total accumulated depreciation as of June 30, 2011, was \$12,178,292, and total depreciation expense for the year was \$1,393,214, resulting in total net capital assets of \$36,992,228.

PETAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

Table 4
Capital Assets, Net of Accumulated Depreciation

	June 30, 2011	June 30, 2010	Percentage Change
Land	\$ 1,454,260	\$ 1,454,260	0.00 %
Construction in Progress	-	6,326,872	(100.00) %
Buildings	31,439,979	24,855,251	26.49 %
Improvements other than buildings	2,746,378	2,888,554	(4.92) %
Mobile equipment	504,685	582,106	(13.30) %
Furniture and equipment	846,926	1,022,098	(17.14) %
Total	\$ 36,992,228	\$ 37,129,141	(0.37) %

Additional information on the District's capital assets can be found in Note 5 included in this report.

Debt Administration. At June 30, 2011, the District had \$16,955,545 in outstanding long-term debt, of which \$1,156,347 is due within one year. During the fiscal year, the District received proceeds from the issuance of a shortfall note payable in the amount of \$743,563. The District made principal payments of \$1,048,018 on long-term debt during the fiscal year. The liability for compensated absences increased \$62,371 from the prior year.

Table 5
Outstanding Long-Term Debt

	June 30, 2011	June 30, 2010	Percentage Change
General obligation bonds payable	\$ 7,700,000	\$ 8,050,000	(4.35) %
Limited obligation bonds payable	2,450,000	2,720,000	(9.93) %
Three mill notes payable	2,750,000	3,000,000	(8.33) %
Shortfall notes payable	743,563	81,739	809.68 %
Obligations under capital leases	-	27,742	(100.00) %
Qualified school construction bonds payable	3,000,000	3,000,000	0.00 %
Compensated absences payable	311,982	249,611	24.99 %
Total	\$ 16,955,545	\$ 17,129,092	(1.01) %

Additional information on the District's long-term debt can be found in Note 6 included in this report.

CURRENT ISSUES

The Petal 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 revenues.

PETAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have any questions about this report or need additional financial information, contact the Superintendent's Office of the Petal School District, P. O. Box 523, Petal, MS 39465.



BASIC FINANCIAL STATEMENTS



PETAL SCHOOL DISTRICT
Statement of Net Assets
June 30, 2011

Exhibit A

	<u>Governmental Activities</u>
Assets:	
Cash and cash equivalents	\$ 13,767,381
Due from other governments	1,348,160
Inventories and prepaid items	54,376
Restricted assets	664,431
Capital assets, non-depreciable:	
Land	1,454,260
Capital assets, net of accumulated depreciation:	
Buildings	31,439,979
Improvements other than buildings	2,746,378
Mobile equipment	504,685
Furniture and equipment	846,926
Total Assets	<u>52,826,576</u>
Liabilities:	
Accounts payable and accrued liabilities	230,347
Interest payable on long-term liabilities	178,737
Long-term liabilities, due within one year:	
Capital related liabilities	870,000
Non-capital related liabilities	286,347
Long-term liabilities, due beyond one year:	
Capital related liabilities	15,030,000
Non-capital related liabilities	769,198
Total Liabilities	<u>17,364,629</u>
Net Assets:	
Investments in capital assets, net of related debt	21,092,228
Restricted net assets:	
Expendable:	
School-based activities	2,486,160
Debt service	1,153,391
Forestry improvements	42,163
Unemployment benefits	82,107
Non-expendable:	
Sixteenth section	542,532
Unrestricted	10,063,366
Total Net Assets	<u>35,461,947</u>

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

PETAL SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2011

Exhibit B

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:				
Governmental Activities:				
Instruction	\$ 17,703,779	3,041,120		\$ (14,146,295)
Support services	11,546,095	1,408,892		(10,137,203)
Non-instructional	3,119,498	1,487,115		(803,025)
Sixteenth section	2,103			(2,103)
Interest and other expenses on long-term liabilities	491,387			(491,387)
Total governmental activities	\$ 32,862,862	5,937,127	-	(25,580,013)

General Revenues:	
Taxes:	
General purpose levies	7,773,782
Debt purpose levies	321,030
Unrestricted grants and contributions:	
State	16,510,102
Federal	1,136,361
Unrestricted investment earnings	410,075
Sixteenth section sources	96,716
Other	149,599
Total General Revenues	26,399,765

Change in Net Assets	819,752
Net Assets - Beginning, as originally reported	34,542,922
Prior Period Adjustments	99,273
Net Assets - Beginning - Restated	34,642,195
Net Assets - Ending	\$ 35,461,947

PETAL SCHOOL DISTRICT
 Balance Sheet - Governmental Funds
 June 30, 2011

Exhibit C

	Major Funds		Total Governmental Funds
	General Fund	Other Governmental Funds	
ASSETS			
Cash and cash equivalents	\$ 10,486,119	3,597,573	\$ 14,083,692
Cash with fiscal agents		200,000	200,000
Investments		148,120	148,120
Due from other governments	884,891	463,269	1,348,160
Due from other funds	185,761	22,272	208,033
Advance to other funds		226,221	226,221
Inventories and prepaid items		54,376	54,376
Total Assets	11,556,771	4,711,831	16,268,602
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	211,639	18,708	230,347
Due to other funds		208,033	208,033
Advances from other funds	226,221		226,221
Total Liabilities	437,860	226,741	664,601
Fund Balances:			
Nonspendable:			
Inventory		54,376	54,376
Permanent fund principal		316,311	316,311
Advances		226,221	226,221
Restricted:			
Debt service		1,332,128	1,332,128
Unemployment benefits		82,107	82,107
Forestry improvement purposes		42,163	42,163
Capital projects		2,431,784	2,431,784
Assigned:			
Capital improvements	7,902,543		7,902,543
Unassigned:			
	3,216,368		3,216,368
Total Fund Balances	11,118,911	4,485,090	15,604,001
Total Liabilities and Fund Balances	\$ 11,556,771	4,711,831	\$ 16,268,602

PETAL SCHOOL DISTRICT
 Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
 June 30, 2011

Exhibit C-1

	<u>Amount</u>
Total fund balance for governmental funds	\$ 15,604,001
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:	
Land	1,454,260
Buildings	39,142,773
Improvements other than buildings	3,518,909
Mobile equipment	2,684,493
Furniture and equipment	2,370,085
Accumulated depreciation	<u>(12,178,292)</u>
	36,992,228
2. Long-term liabilities and related accrued interest are not due and payable in the current period and therefore are not reported in the funds:	
General obligation bonds	(7,700,000)
Limited obligation bonds	(2,450,000)
Other bonds payable	(3,000,000)
Notes payable	(3,493,563)
Compensated absences	(311,982)
Accrued interest payable	<u>(178,737)</u>
	<u>(17,134,282)</u>
Net assets of governmental activities	<u><u>\$ 35,461,947</u></u>

PETAL SCHOOL DISTRICT
 Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 For the Year Ended June 30, 2011

Exhibit D

	Major Funds		Total Governmental Funds
	General Fund	Other Governmental Funds	
Revenues:			
Local sources	\$ 8,558,677	1,380,762	\$ 9,939,439
Intermediate sources		18,000	18,000
State sources	15,972,639	1,549,547	17,522,186
Federal sources	85,978	5,977,426	6,063,404
Sixteenth section sources		139,585	139,585
Total Revenues	24,617,294	9,065,320	33,682,614
Expenditures:			
Instruction	12,989,369	4,654,329	17,643,698
Support services	9,326,198	1,521,258	10,847,456
Noninstructional services	247,221	2,242,211	2,489,432
Sixteenth section		2,103	2,103
Facilities acquisition and construction		1,021,657	1,021,657
Debt service:			
Principal	23,581	1,024,437	1,048,018
Interest	2,245	524,267	526,512
Other		4,475	4,475
Total Expenditures	22,588,614	10,994,737	33,583,351
Excess (deficiency) of revenues over expenditures	2,028,680	(1,929,417)	99,263
Other Financing Sources (Uses):			
Bonds and notes issued	743,563		743,563
Payments held by escrow agent		201,500	201,500
Payment to QSCB debt escrow agent	(201,500)		(201,500)
Operating transfers in	3,822,404	2,367,891	6,190,295
Operating transfers out	(860,407)	(5,329,888)	(6,190,295)
Total Other Financing Sources (Uses)	3,504,060	(2,760,497)	743,563
Net change in fund balances	5,532,740	(4,689,914)	842,826
Fund Balances:			
July 1, 2010, as originally reported	5,586,742	9,174,468	14,761,210
Prior period adjustments	(571)	418	(153)
July 1, 2010, as restated	5,586,171	9,174,886	14,761,057
Increase(Decrease) in reserve for inventory June 30, 2011	\$ 11,118,911	4,485,090	\$ 15,604,001

PETAL SCHOOL DISTRICT
 Reconciliation of the Governmental Funds Statement of Revenues,
 Expenditures and Changes in Fund Balances to the Statement of Activities
 For the Year Ended June 30, 2011

Exhibit D-1

	<u>Amount</u>	
Net change in fund balances - governmental funds	\$ 842,826	
Amounts reported for governmental activities in the statement of activities are different because:		
1. Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital outlay	1,094,818	
Depreciation expense	<u>(1,393,214)</u>	(298,396)
2. In the statement of activities, only the gain/loss on the sale of assets is reported, while in the governmental funds, the proceeds from the sale increases financial resources. Thus the change in net assets differs from the change in fund balance by the cost of the assets sold.		
		(6,480)
3. The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and the difference between the carrying value of refunded debt and the acquisition cost of refunded debt when debt is first issued. These amounts are deferred and amortized in the statement of activities:		
Bonds and notes issued	(743,563)	
Payments of debt principal	1,048,018	
Accrued interest payable	<u>39,600</u>	344,055
4. Some items reported in the statement of activities do not provide or require the use of current financial resources and therefore are not reported as revenues/expenditures in governmental funds. These activities include:		
Change in compensated absences	(62,371)	
Change in inventory reserve	<u>118</u>	(62,253)
Change in net assets of governmental activities	<u>\$ 819,752</u>	

PETAL SCHOOL DISTRICT
Statement of Fiduciary Assets and Liabilities
June 30, 2011

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 984,807
<i>Total assets</i>	<u>984,807</u>
Liabilities	
Accounts payable and accrued liabilities	959,831
Due to student clubs	24,976
<i>Total liabilities</i>	<u>\$ 984,807</u>



NOTES TO FINANCIAL STATEMENTS



PETAL SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2011

(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. Basis of Presentation.

In February 2009, the GASB issued GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement No. 54. As a result, amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned, or unassigned.

B. Financial Reporting Entity.

As defined by accounting principles generally accepted in the United States of America, the school district is considered an "other stand-alone government." The school district is a related organization of, but not a component unit of, the City of Petal since the governing authority of the city selects a majority of the school district's board but does not have financial accountability for the school district.

For financial reporting purposes, Petal 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.

C. Government-wide and Fund Financial Statements.

Government-wide Financial Statements:

The Statement of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of inter-fund 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 non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

PETAL SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2011

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.
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, are 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 taxes and other items not included among program revenues are reported instead as general revenues.

Fund Financial Statements:

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

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

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.

PETAL SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2011

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUND TYPES

Special Revenue Funds – Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Capital Projects Funds – Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Debt Service Funds – Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest..

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

FIDUCIARY FUNDS

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

D. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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 type grants are recorded as revenues when the related expenditures are recognized. Use

PETAL SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2011

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 inter-fund activity has been eliminated from the government-wide statements.

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

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting*, 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.

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.

PETAL SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2011

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, as well as for its component units, are reported at fair market value.

2. Receivables and payables.

Activities 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 inter-fund loans) or "advances to/from other funds" (i.e. the non-current portion of inter-fund 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.

Certain resources set aside for repayment of debt are classified as restricted assets on the statement of net assets 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

PETAL SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2011

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 include land, improvements to land, easements, water rights, timber rights, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Capital assets are reported in the applicable governmental or business type activities columns 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 table below.

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 the capitalization 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 unused leave for employees as required by Section 37-7-307(5), Miss. Code Ann. (1972).

PETAL SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2011

The liability for these compensated absences is recorded as a long-term liability 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 liability for compensated absence 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 Balances

Fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Governmental fund balance is classified as nonspendable, restricted, committed, assigned or unassigned. Following are descriptions of fund classifications used by the district.

Nonspendable fund balance includes items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds are restricted, committed, or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.

Restricted fund balance includes amounts that have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

Committed fund balance includes amounts that can be used only for the specific purposes pursuant to constraints imposed by a formal action of the School Board, the District's highest level of decision-making authority. Currently there is no committed fund balance for this district.

Assigned fund balance includes amounts that are constrained by the District's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the general fund, this is the residual amount within the fund that is not restricted or committed. Assignments of fund balance are created by the Superintendent and Business Manager pursuant to authorization established by the policy adopted by the school district.

PETAL SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2011

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, it may be necessary to report a negative unassigned fund balance.

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) resources are available, it is the District's general policy to use restricted resources first. When expenditures/expenses are incurred for purposes for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the District's general policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

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

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

Deposits. The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the school district's deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State 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 obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, not to exceed fifty percent of all monies invested with maturities of thirty days or longer; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or other interests in, any open-end or closed-end management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration, not to exceed twenty percent of invested excess funds. 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. Investment income of less than \$100 can be credited to the General Fund.

PETAL SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2011

Cash and Cash Equivalents.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$ 14,083,692 and \$ 984,807, respectively. The bank balance was \$ 15,671,410.

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, 2011, none of the district's bank balance of \$ 15,671,410 was exposed to custodial credit risk.

Cash with Fiscal Agents.

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$200,000.

Investments.

As of June 30, 2011, the district had the following investments.

<u>Investment Type</u>	<u>Maturities (in years)</u>	<u>Fair Value</u>	<u>Rating</u>
Hancock Horizon Treasury Securities Class A Money Market Mutual Fund	less than 1	\$ 148,120	AAAm
Total Investments		<u>\$ 148,120</u>	

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

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

Custodial Credit Risk – Investments. Custodial credit risk is defined as the risk that, in the event of failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk. The investment in the Hancock Horizon Treasury Securities Money Market Mutual Funds is uninsured and unregistered and is not backed by the full faith and credit of the federal government.

(3) Inter-fund Receivables, Payables and Transfers.

The following is a summary of inter-fund transactions and balances:

PETAL SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2011

A. Due from / To Other Funds.

	Due From	Due To
Governmental Funds:		
General fund	\$ 185,761	-
Other governmental funds	22,272	208,033
Total Funds	\$ 208,033	208,033

The purpose of interfund loans was to account for federal funds that were not received until after the year ending 6/30/2011.

B. Advances To / From Other Funds.

Receivable Fund	Payable Fund	Amount
16th Section Principal Fund	General Fund	\$ 226,221
Total		\$ 226,221

Sixteenth section principal loans payable.

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

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

Year Ending June 30	Principal	Interest	Total
2012	20,786	831	21,617
2013	20,786	831	21,617
2014	16,787	672	17,459
2015	16,787	672	17,459
2016	16,787	675	17,462
2017-2021	83,931	3,358	87,289
2022-2024	50,357	2,015	52,372
Total	\$ 226,221	\$ 9,054	\$ 235,275

C. Inter-fund Transfers.

PETAL SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2011

	Transfers In	Transfers Out
Governmental Funds:		
General fund	\$ 3,822,404	860,407
Other governmental funds	2,367,891	5,329,888
Total Funds	\$ 6,190,295	6,190,295

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 \$316,311, of the Sixteenth Section Principal Fund (Permanent Fund), which is legally restricted and may not be used for purposes that support the district's program. In addition, the restricted assets represent the cash balance, totaling \$ 200,000, of the QSCB Bond Sinking Fund. In addition, the restricted assets represent the investment balance, totaling \$148,120, of the MAEP Interim Debt Service Fund.

(5) **Capital Assets.**

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

	Balance 7/1/2010	Additions	Retirements	Completed Construction	Adjustments	Balance 6/30/2011
Governmental Activities:						
Non-depreciable capital assets:						
Land	\$ 1,454,260					\$ 1,454,260
Construction in progress	6,326,872	1,021,657		(7,348,529)		-
Total non-depreciable capital assets	7,781,132	1,021,657	-	(7,348,529)	-	1,454,260
Depreciable capital assets:						
Buildings	31,794,244			7,348,529		39,142,773
Improvements other than buildings	3,518,909					3,518,909
Mobile equipment	2,661,756	22,737				2,684,493
Furniture and equipment	2,366,925	50,424	47,264			2,370,085
Total depreciable capital assets	40,341,834	73,161	47,264	7,348,529	-	47,716,260
Less accumulated depreciation for:						
Buildings	6,938,993	763,801				7,702,794
Improvements other than buildings	630,356	142,176				772,531
Mobile equipment	2,079,650	100,158				2,179,808
Furniture and equipment	1,344,827	387,078	40,784		(167,963)	1,523,159
Total accumulated depreciation	10,993,825	1,393,214	40,784	-	(167,963)	12,178,292
Total depreciable capital assets, net	29,348,009	(1,320,053)	6,480	7,348,529	167,963	35,537,968
Total capital assets, net	\$ 37,129,141	(298,396)	6,480	-	167,963	\$ 36,992,228

* An adjustment was made to accumulated depreciation in order to balance to the detail accumulated depreciation report per the district.

PETAL SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2011

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$ 16,421
Support Services	715,290
Non-Instructional	661,503
Total depreciation expense	<u>\$ 1,393,214</u>

(6) Long-term Liabilities.

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

	Balance 7/1/2010	Additions	Reductions	Adjustments **	Balance 6/30/2011	Amounts due within one year
A. General obligation bonds payable	8,050,000		(350,000)		7,700,000	375,000
B. Limited obligation bonds payable	2,720,000		(270,000)		2,450,000	275,000
C. Three mill note payable	3,000,000		(250,000)		2,750,000	220,000
D. Shortfall notes payable	81,739	743,563	(150,276)	68,537	743,563	241,018
E. Obligations under capital leases	27,742		(27,742)		-	-
F. Qualified school construction bonds payable	3,000,000				3,000,000	-
G. Compensated absences payable	249,611	62,371			311,982	45,329
Total	<u>\$ 17,129,092</u>	<u>805,934</u>	<u>(1,048,018)</u>	<u>68,537</u>	<u>16,955,545</u>	<u>1,156,347</u>

** Adjustment needed to correct understatement of prior year shortfall note payable.

A. General obligation bonds payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General obligation bonds, series 2006	3.7%-5.125%	11/1/2006	9/1/2026	9,000,000	7,700,000
Total				<u>\$ 9,000,000</u>	<u>\$ 7,700,000</u>

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

General Obligation Bonds, Series 2006 issue of 11/1/2006:

PETAL SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2011

Year Ending June 30	Principal	Interest	Total
2012	375,000	303,397	678,397
2013	425,000	282,897	707,897
2014	450,000	260,475	710,475
2015	475,000	236,772	711,772
2016	525,000	211,475	736,475
2017-2021	2,325,000	763,600	3,088,600
2022-2026	2,775,000	337,100	3,112,100
2027	350,000	6,475	356,475
Total	<u>\$ 7,700,000</u>	<u>\$ 2,402,191</u>	<u>\$ 10,102,191</u>

This debt will be retired from the Bond Issue Debt Service Fund.

The amount of bonded indebtedness that can be incurred by the school district is limited by Sections 37-59-5 and 37-59-7, Miss. Code Ann. (1972). Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the last completed assessment for taxation, unless certain conditions, as set forth in Section 37-59-7, Miss. Code Ann. (1972) have been met. As of June 30, 2011, the amount of outstanding bonded indebtedness was equal to 5.30% of property assessments as of October 1, 2010.

B. Limited obligation bonds payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital refunding bonds, series 2009	3.01%	6/15/2009	2/1/2018	2,887,000	2,450,000
Total				<u>\$ 2,887,000</u>	<u>\$ 2,450,000</u>

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

Limited obligation bond issue of 6/15/2009:

PETAL SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2011

Year Ending June 30	Principal	Interest	Total
2012	275,000	69,606	344,606
2013	290,000	61,103	351,103
2014	295,000	52,299	347,299
2015	305,000	43,269	348,269
2016	320,000	33,863	353,863
2017-2018	965,000	38,152	1,003,152
Total	<u>\$ 2,450,000</u>	<u>\$ 298,292</u>	<u>\$ 2,748,292</u>

This debt will be retired from the MAEP Interim Debt Service Fund.

The state aid capital improvement bonds are secured by an irrevocable pledge of certain revenues the district receives from the State of Mississippi pursuant to the Mississippi Accountability and Adequate Education Program, Sections 37-151-1 through 37-151-7, Miss. Code Ann. (1972). The state aid capital improvement bonds are not included in the computation of the debt limit percentage.

C. Three mill notes payable.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
\$ 3,000,000 three mill tax note, series 2010	3.38%	1/15/2010	10/1/2026	3,000,000	2,750,000
Total				<u>\$ 3,000,000</u>	<u>\$ 2,750,000</u>

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

Three mill notes payable issue of 1/15/2010:

Year Ending June 30	Principal	Interest	Total
2012	220,000	69,606	289,606
2013	210,000	61,103	271,103
2014	120,000	52,299	172,299
2015	120,000	43,269	163,269
2016	125,000	68,091	193,091
2017-2021	705,000	340,539	1,045,539
2022-2026	1,070,000	137,026	1,207,026
2027	180,000	3,038	183,038
Total	<u>\$ 2,750,000</u>	<u>\$ 774,971</u>	<u>\$ 3,524,971</u>

This debt will be retired from the 3 mill note retirement fund.

PETAL SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2011

D. Shortfall notes payable.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Revenue shortfall note, Series 2009	3.75%	7/14/2009	8/1/2010	81,739	-
Revenue shortfall note, Series 2010	2.81%	7/19/2010	7/19/2013	743,563	743,563
Total				<u>\$ 825,302</u>	<u>\$ 743,563</u>

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

Shortfall notes payable issue of 7/19/2010:

Year Ending June 30	Principal	Interest	Total
2012	241,018	20,894	261,912
2013	247,791	14,122	261,913
2014	254,754	7,159	261,913
Total	<u>\$ 743,563</u>	<u>\$ 42,175</u>	<u>\$ 785,738</u>

This debt will be retired from the shortfall note fund.

E. Obligations under capital leases.

This debt was retired during the year.

F. Qualified school construction bonds payable.

As more fully explained in Note 13, debt has been issued by the school district that qualifies as Qualified School Construction bonds. Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Qualified School Construction Bond, Series 2009	0.00%	11/19/2009	11/19/2023	3,000,000	3,000,000
Total				<u>\$ 3,000,000</u>	<u>\$ 3,000,000</u>

G. 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.

PETAL SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2011

(7) Other Commitments.

Operating leases:

The school district reports the following leases as operating leases:

1. Nine Canon copiers

Lease expenditures for the year ended June 30, 2011, amounted to \$ 5,258.

(8) Defined Benefit Pension Plan.

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

Funding Policy. PERS members are required to contribute 9.00 % of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate for fiscal year ended June 30, 2011 was 12.00% 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, 2011, 2010, and 2009 were \$ 2,189,907, \$ 2,280,506 and \$ 2,241,263, respectively, which equaled the required contributions for each year.

(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.

Year Ending June 30	Amount
2012	50,446
2013	48,412
2014	48,219
2015	48,219
2016	47,688
2017-2021	235,270
2022-2026	227,440
2027-2031	226,813
2032-2036	212,390
Thereafter	213,826
Total	\$ 1,357,639

PETAL SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2011

(10) **Prior period adjustments.**

A summary of significant fund balance adjustments is as follows:

Exhibit B - Statement of Activities

<u>Explanation:</u>	<u>Amount</u>
1. Adjustment related to accumulated depreciation	\$ 167,963
2. Adjustment related to shortfall note payable	(68,537)
3. To adjust revenues to actual	(153)
Total	\$ 99,273

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

<u>Fund</u>	<u>Explanations</u>	<u>Amount</u>
General fund	To adjust revenues to actual	\$ (571)
Other governmental funds	To adjust revenues to actual	418
	Total	\$ (153)

(11) **Contingencies.**

Federal Grants. – The school district has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowances resulting from the grantor audit may become a liability of the school district.

Litigation.

The school district is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate the outcome or liability, if any, of the school district with respect to the various proceedings. However, the school district's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material effect on the financial condition of the school district.

(12) **Risk Management.**

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

Participation in Public Entity Risk Pool.

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 72 school districts and covers risks of loss arising from injuries to member's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation

PETAL SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2011

obligations of each member. Each member of the MSBAWCT contributes quarterly to a fund held in trust by Wells Fargo in Portland, Oregon. The funds in the trust account are used to pay any claim up to \$ 750,000. For a claim exceeding \$ 750,000, MSBAWCT has insurance which will pay the excess to the statutory amount required by the Mississippi Workers Compensation Commission Act. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

(13) **Qualified School Construction Bonds.**

Section 1521 of the American Recovery and Reinvestment Act (ARRA) of 2009 provides for a source of capital at no or at nominal interest rates for costs incurred by certain public schools in connection with the construction, rehabilitation or repair of a public school facility or for the acquisition of land where a school will be built. Investors receive Federal income tax credits at prescribed tax credit rates in lieu of interest, which essentially allows state and local governments to borrow without incurring interest costs.

The school district makes equal annual payments into a sinking fund which is used to payoff the bonds at termination. The current maturity limit of tax credit bonds is 17 years, per the U.S. Treasury Department. Under this program, ten percent of the proceeds must be subject to a binding commitment to be spent within six months of issuance and 100% must be spent within three years. Up to two percent of bond proceeds can be used to pay costs of issuance. The amount on deposit at June 30, 2011 was \$195,160. The amount accumulated in the sinking fund at the end of the seventeen-year period will be sufficient to retire the debt. The following schedule reports the annual deposits to be made to the sinking fund by the school district.

Year Ending June 30	Amount
2012	193,250
2013	193,250
2014	193,250
2015	193,250
2016	193,250
2017-2021	966,250
2022-2024	579,750
Total	\$ 2,512,250

REQUIRED SUPPLEMENTARY INFORMATION



PETAL SCHOOL DISTRICT
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2011

Schedule 1

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
	Original	Final		Positive (Negative)	
				Original to Final	Final to Actual
Revenues:					
Local sources	9,591,862	8,558,677	8,558,677	(1,033,185)	-
State sources	16,915,023	15,972,639	15,972,639	(942,384)	-
Federal sources	100,000	85,978	85,978	(14,022)	-
Total Revenues	26,606,885	24,617,294	24,617,294	(1,989,591)	-
Expenditures:					
Instruction	15,204,558	12,989,369	12,989,369	2,215,189	-
Support services	9,810,521	9,326,198	9,326,198	484,323	-
Noninstructional services	252,591	247,221	247,221	5,370	-
Debt service:					
Principal	20,786	23,581	23,581	(2,795)	-
Interest	831	2,245	2,245	(1,414)	-
Total Expenditures	25,289,287	22,588,614	22,588,614	2,700,673	-
Excess (deficiency) of revenues over expenditures	1,317,598	2,028,680	2,028,680	711,082	-
Other Financing Sources (Uses)					
Bonds and notes issued		743,563	743,563	743,563	-
Payment to QSCB debt escrow agent		(201,500)	(201,500)	(201,500)	-
Operating transfers in	3,325,800	8,206,856	3,822,404	4,881,056	(4,384,452)
Operating transfers out	(4,747,033)	(5,244,859)	(860,407)	(497,826)	4,384,452
Total Other Financing Sources (Uses)	(1,421,233)	3,504,060	3,504,060	4,925,293	-
Net change in fund balances	(103,635)	5,532,740	5,532,740	5,636,375	-
Fund Balances:					
July 1, 2010	5,061,270	5,586,742	5,586,742	525,472	-
Prior Period Adjustments	-	(571)	(571)	(571)	-
July 1, 2010, as restated	5,061,270	5,586,171	5,586,171	524,901	-
Increase (decrease) in reserve for inventory	-	-	-	-	-
June 30, 2011	4,957,635	11,118,911	11,118,911	6,161,276	-

PETAL SCHOOL DISTRICT

Notes to the Required Supplementary Information
For the Year Ended June 30, 2011

Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(2) Budget Amendments and Revisions.

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

SUPPLEMENTAL INFORMATION



PETAL SCHOOL DISTRICT
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2011

<u>Federal Grantor / Pass-through Grantor / Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>		
Passed - through Mississippi Department of Education:		
Child Nutrition Cluster:		
School breakfast program	10.553	345,320
National school lunch program	10.555	984,785
Summer food service program for children	10.559	23,669
Total child nutrition cluster		<u>1,353,774</u>
Total passed-through Mississippi Department of Education		<u>1,353,774</u>
<i>Total U.S. Department of Agriculture</i>		<u>1,353,774</u>
 <u>Federal Communication Commission</u>		
Administered -through Universal Service Administrative Company:		
The schools and libraries program of the Universal Service Fund	32.XXX	78,520
<i>Total Federal Communication Commission</i>		<u>78,520</u>
 <u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Career and technical education - basic grants to states	84.048	46,490
Safe and drug-free schools and communities - state grants	84.186	4,756
English language acquisition grants	84.365	10,374
Improving teacher quality - state grants	84.367	115,170
Education Jobs Fund	84.410A	785,855
Subtotal		<u>962,645</u>
Title I Cluster:		
Title I grants to local educational agencies	84.010	757,659
ARRA - Title I grants to local educational agencies, recovery act	84.389	317,635
Total Title I Cluster		<u>1,075,294</u>
Special education cluster:		
Special education - grants to states	84.027	885,764
Special education - preschool grants	84.173	79,799
ARRA - Special education - grants to states, recovery act	84.391	293,085
Total special education cluster		<u>1,258,648</u>
State Fiscal Stabilization Fund:		
ARRA - State Fiscal Stabilization Fund - Education state grants - recovery act	84.394	1,252,382
Total State Fiscal Stabilization Fund cluster		<u>1,252,382</u>
Education for homeless children and youth		
ARRA - Education for homeless children and youth, recovery act	84.387	26,059
Total Education for homeless children and youth		<u>26,059</u>
Total Passed-through Mississippi Department of Education		<u>4,575,028</u>
<i>Total U.S. Department of Education</i>		<u>4,575,028</u>
 <u>U.S. Department of Health and Human Services</u>		
Passed-through the Mississippi Department of Education:		
Medicaid school-based claiming	93.778	19,359
<i>Total U.S. Department of Health and Human Services</i>		<u>19,359</u>
 Total for All Federal Awards		 <u>\$ 6,026,681</u>

NOTES TO SCHEDULE

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

Petal School District
 Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
 For the Year Ended June 30, 2011

Expenditures	Total	Instruction and Other			
		Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 25,784,102	19,310,610	1,321,455	1,610,247	3,541,789
Other	7,799,249	1,324,587	265,412	172,145	6,037,105
Total	33,583,351	20,635,197	1,586,868	1,782,392	9,578,894
Total number of students *		3,892			
Cost per student		\$ 8,629			
		408			
		458			
		2,461			

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 INFORMATION



PETAL SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

"UNAUDITED"

General Fund

Last Four Years

	2011	2010*	2009*	2008*
Revenues:				
Local sources	\$ 8,558,677	9,348,305	8,089,478	7,880,670
Intermediate sources			10,000	30,098
State sources	15,972,639	16,624,557	19,338,982	19,025,140
Federal sources	85,978	85,178	89,852	177,689
Total Revenues	24,617,294	26,058,040	27,528,312	27,113,577
Expenditures:				
Instruction	12,989,369	14,595,575	16,091,833	15,104,919
Support services	9,326,198	9,162,182	9,546,200	8,254,969
Noninstructional services	247,221	196,675	191,563	163,691
Facilities acquisition and construction		564,780	247,859	171,254
Debt service:				
Principal	23,581	22,247	24,994	
Interest	2,245	2,748	831	831
Other		1,000	35,000	
Total Expenditures	22,588,814	24,545,207	26,138,280	23,695,664
Excess (Deficiency) of Revenues over Expenditures	2,028,680	1,512,833	1,390,032	3,417,913
Other Financing Sources (Uses):				
Proceeds of refunding bonds			2,887,000	
Bonds and notes issued	743,563	81,739		
Inception of capital leases			74,984	
Insurance loss recoveries		11,917	9,015	
Payment to QSCB debt escrow agent	(201,500)			
Sale of transportation equipment				2,115
Sale of other property		3,305	1,163	3,349
Operating transfers in	3,822,404	4,530,462	4,317,949	750,000
Other financing sources				
Operating transfers out	(860,407)	(5,718,868)	(5,253,285)	(2,873,795)
Payment to refunded bond escrow agent			(2,852,000)	
Total Other Financing Sources (Uses)	3,504,060	(1,091,445)	(815,174)	(2,118,331)
Net Change in Fund Balances	5,532,740	421,388	574,858	1,299,582
Fund Balances:				
Fund balance, July 1	5,586,742	5,187,013	4,609,967	3,292,245
Prior period adjustments	(571)			
Fund balance, July 1, as restated	5,586,171	5,187,013	4,609,967	3,292,245
 Increase (Decrease) in reserve for inventory	 -	 (21,659)	 2,188	 18,140
Fund balance, June 30	\$ 11,118,911	5,586,742	5,187,013	4,609,967

*SOURCE - PRIOR YEAR AUDIT REPORTS

PETAL SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

"UNAUDITED"

All Governmental Funds

Last Four Years

	2011	2010*	2009*	2008*
Revenues:				
Local sources	\$ 9,938,439	10,875,202	9,753,280	10,376,493
Intermediate sources	18,000	21,044	37,798	30,098
State sources	17,522,186	17,699,044	20,682,188	20,070,164
Federal sources	6,063,404	5,277,514	3,947,208	3,762,757
Sixteenth section sources	139,585	105,122	81,648	298,405
Total Revenues	33,682,614	33,977,926	34,502,102	34,537,917
Expenditures:				
Instruction	17,843,698	18,782,131	18,890,304	17,535,521
Support services	10,847,456	10,569,135	11,689,004	9,740,783
Noninstructional services	2,489,432	2,484,459	2,754,250	2,596,774
Sixteenth section	2,103	23,933	6,541	14,359
Facilities acquisition and construction	1,021,657	6,579,705	991,959	13,588,768
Debt service:				
Principal	1,048,018	514,247	549,994	540,000
Interest	526,512	394,060	487,266	642,973
Other	4,475	79,962	36,940	
Total Expenditures	33,583,351	39,427,632	35,406,258	44,659,178
Excess (Deficiency) of Revenues over Expenditures	99,263	(5,449,706)	(904,156)	(10,121,261)
Other Financing Sources (Uses):				
Proceeds of general obligation bonds		3,000,000		
Bonds and notes issued	743,563	3,081,739		
Payments held by escrow agent	201,500			
Proceeds of refunding bonds			2,887,000	
Inception of capital leases			74,984	
Insurance loss recoveries		11,917	9,015	
Payment to QSCB debt escrow agent	(201,500)			
Sale of transportation equipment				2,115
Sale of other property		4,608	1,213	3,349
Operating transfers in	6,190,295	6,529,713	6,084,505	7,828,959
Other financing sources				
Operating transfers out	(6,190,295)	(6,529,713)	(6,084,505)	(7,828,959)
Other financing uses			(687)	
Payment to refunded bond escrow agent			(2,852,000)	
Total Other Financing Sources (Uses)	743,563	6,098,264	119,545	5,464
Net Change in Fund Balances	842,826	648,558	(784,611)	(10,115,797)
Fund Balances:				
Fund balance, July 1	14,761,210	14,138,239	14,905,160	25,003,862
Prior period adjustments	(153)	-	-	-
Fund balance, July 1, as restated	14,761,057	14,138,239	14,905,160	25,003,862
 Increase (Decrease) in reserve for inventory	 118	 (25,587)	 17,590	 17,095
Fund balance, June 30	\$ 15,604,001	14,761,210	14,138,239	14,905,160

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON COMPLIANCE AND INTERNAL CONTROL



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MEMBER
Mississippi Society
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Accountants

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

October 5, 2012

Superintendent and School Board
Petal School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Petal School District as of and for the year ended June 30, 2011, which collectively comprise Petal School District's basic financial statements and have issued our report thereon dated October 5, 2012. 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

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

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

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

McDaniel CPA Firm

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INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

October 5, 2012

Superintendent and School Board
Petal School District

Compliance

We have audited the compliance of the Petal School District with the types of compliance requirements described in *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The Petal 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, Petal School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the Petal School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Petal School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over compliance that might be deficiencies, 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

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

October 5, 2012

Superintendent and School Board
Petal School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Petal School District as of and for the year ended June 30, 2011, which collectively comprise Petal School District's basic financial statements and have issued our report thereon dated October 5, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$ 1,626 of classroom supply funds carried over from previous years.

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

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

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.

McDaniel CPA Firm

PETAL SCHOOL DISTRICT
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2011

Section 1: Summary of Auditor's Results

Financial Statements:

- | | | |
|-----|---|---------------|
| 1 . | Type of auditor's report issued: | unqualified |
| 2 . | Internal control over financial reporting: | |
| | a. Material weakness(es) identified? | no |
| | b. Significant deficiency (ies) identified ? | none reported |
| 3 | Noncompliance material to financial statements noted? | no |

Federal Awards:

- | | | |
|-----|--|---------------|
| 4 . | Internal control over major programs: | |
| | a. Material weakness(es) identified? | no |
| | b. Significant deficiency (ies) identified ? | none reported |

- | | | |
|-----|---|-------------|
| 5 . | Type of auditor's report issued on compliance for major federal programs: | unqualified |
|-----|---|-------------|

- | | | |
|-----|--|----|
| 6 . | Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? | no |
|-----|--|----|

- | | | |
|-----|-----------------------------------|--|
| 7 . | Identification of major programs: | |
|-----|-----------------------------------|--|

CFDA Numbers	Name of Federal Program or Cluster
10.553	Child Nutrition Cluster
10.555	Child Nutrition Cluster
10.559	Child Nutrition Cluster
84.394	ARRA - State Fiscal Stabilization - Education State Grants - recovery act
84.410A	Education Jobs Fund

- | | | |
|-----|--|------------|
| 8 . | Dollar threshold used to distinguish between type A and type B programs: | \$ 300,000 |
|-----|--|------------|

- | | | |
|-----|--|----|
| 9 . | Auditee qualified as a low-risk auditee? | no |
|-----|--|----|

Section 2: Financial Statement Findings

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

Section 3: Federal Award Findings and Questioned Costs

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