



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR

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QUITMAN COUNTY SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2004

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QUITMAN COUNTY SCHOOL DISTRICT

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QUITMAN COUNTY SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

QUITMAN COUNTY SCHOOL DISTRICT

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State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

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

Superintendent and School Board
Quitman County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Quitman County School District as of and for the year ended June 30, 2004, which collectively comprise the Quitman County School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Quitman County School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Quitman County School District, as of June 30, 2004, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2005, on our consideration of the Quitman County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 7 through 13 and the Budgetary Comparison Schedule and corresponding notes on pages 41 through 43 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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



PHIL BRYANT
State Auditor



WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

November 18, 2005

QUITMAN COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

QUITMAN COUNTY SCHOOL DISTRICT

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QUITMAN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004

The discussion and analysis of Quitman County School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2004. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

This discussion and analysis is a new element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999. Certain comparative information between the current year and the prior year is required to be presented.

FINANCIAL HIGHLIGHTS

- Total net assets, including the effect of prior period adjustments, increased \$227,500 which represents a 13% increase from fiscal year 2003.
- General revenues account for \$8,238,971 in revenue, or 70% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$3,487,938 or 30% of total revenues.
- The District had \$11,560,732 in expenses; only \$3,487,938 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$8,238,971 were adequate to provide for these programs.
- Among the major funds, the General Fund had \$7,901,632 in revenues, \$7,419,372 in expenditures, \$223,593 in other financing sources and (\$490,718) in other financing uses. The General Fund's fund balance increased \$215,135 over the prior year. This increase is due in part from state source funding.
- Capital assets, net of accumulated depreciation, decreased by \$86,837.
- Long-term debt decreased by \$189,334. This decrease is due to the fact that annual payments were made to decrease existing debt, as well as the fact that no new debt was issued during fiscal year 2004.

QUITMAN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

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

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

QUITMAN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004

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

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

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

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

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

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

Additionally, a schedule of expenditures of federal awards is required by OMB Circular A-133.

QUITMAN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets: Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$1,884,356 as of June 30, 2004.

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

The following table presents a summary of the District's net assets for the fiscal year ended June 30, 2004 and a comparison of the same information as presented at June 30, 2003.

	FISCAL YEAR 2004	FISCAL YEAR 2003	DIFFERENCE
Current assets	\$ 2,952,673	\$2,770,332	182,341
Capital assets, net	\$ 1,640,781	\$1,727,618	(86,837)
Total Assets	\$ 4,593,454	\$4,497,950	\$ 95,504
Current liabilities	\$ 776,115	\$ 868,081	(91,966)
Long-term debt outstanding	\$ 1,932,983	\$1,973,013	(40,030)
Total Liabilities	\$ 2,709,098	\$2,841,094	(131,996)
Net assets:			
Invested in capital assets, net of related debt	(242,496)	(299,808)	57,312
Restricted	1,061,972	1,101,829	(39,857)
Unrestricted	1,064,880	(854,835)	210,045
Total Net Assets	\$ 1,884,356	\$1,656,856	\$ 227,500

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

- Payments on debt in amount of \$151,181.
- The increase in current assets is represented by cash and cash equivalents. This is the result of an increased level of state funding, under the Mississippi Adequate Education Program, to pay increases in teacher salaries, as mandated by the Mississippi State legislature.

QUITMAN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004

Changes in net assets: The District's total revenues for the fiscal year ended June 30, 2004 were \$11,726,909. The total cost of all programs and services was \$11,560,732. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2004.

	FISCAL YEAR 2004	FISCAL YEAR 2003	DIFFERENCE
Revenues:			
Program revenues	\$ 3,487,938	\$ 3,695,497	(207,559)
General revenues	8,238,971	7,988,632	250,339
Total revenues	<u>\$11,726,909</u>	<u>\$11,684,129</u>	<u>\$ 42,780</u>
Expenses:			
Instruction	\$ 6,208,963	\$ 5,725,671	483,292
Support services	4,110,148	3,393,095	717,053
Non-instructional	1,104,635	1,633,591	(528,956)
Sixteenth Section	22,831		22,831
Interest on long-term liabilities	114,155	133,942	(19,787)
Total expenses	<u>\$11,560,732</u>	<u>\$10,886,299</u>	<u>674,433</u>
Increase in Net Assets	166,177	797,830	(631,653)

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

	Fiscal Year 2003 Total Expenses	Fiscal Year 2003 Net (Expense) Revenue	Fiscal Year 2004 Total Expenses	Fiscal Year 2004 Net (Expense) Revenue	Change in Total Expenses
Instruction	5,725,671	(4,498,291)	6,208,963	(4,869,537)	483,292
Support Services	3,393,095	(2,405,426)	4,110,148	(2,931,928)	717,053
Non-instructional	1,633,591	(159,743)	1,104,635	(134,343)	(528,956)
Sixteenth Section	0	6,600	22,831	(22,831)	22,831
Interest on long-term liabilities	133,942	(133,942)	114,155	(114,155)	(19,787)

QUITMAN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004

Total Expenses	10,886,299	(7,190,802)	11,560,732	(8,072,794)	674,433
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- Net cost of governmental activities \$8,072,794, was financed by general revenue, which is made up of primarily property taxes \$1,668,743, state revenue \$6,286,229, federal revenue \$47,557, sixteenth section sources \$122,478, and other general revenues not otherwise classified \$101,450.
- Investment earnings accounted for \$12,514 of funding.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$2,194,366, an increase, including the effect of prior period adjustments, of \$164,720. \$1,114,586 or 51% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$1,079,780 or 49% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$215,135.

The fund balance of the Other Governmental Funds (Non-major funds) decreased in the amount of \$51,599 for the fiscal year.

BUDGETARY HIGHLIGHTS

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

There was revisions made to the budget because of additions to personnel and the original budget for the federal programs was estimated.

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

QUITMAN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2004, the District's total capital assets were \$4,138,683, including land, school buildings, building and other improvements, busses, other school vehicles, and furniture and equipment. This amount represents a decrease of \$6,107 from the previous year. Total accumulated depreciation as of June 30, 2004 was \$2,497,902 and total depreciation expense for the year was \$204,434, resulting in total net assets of \$1,640,781.

Additional information of the District's capital assets can be found in Notes to the Financial Statements.

Debt Administration. At June 30, 2004, the District had \$1,932,983 in long-term debt outstanding, of which \$163,142 is due within one year.

Additional information of the District's long-term debt can be found in the Notes to the Financial Statements.

CURRENT ISSUES

The QUITMAN COUNTY SCHOOL DISTRICT is financially stable. The District is proud of its community support of the public schools.

The District is still considering constructing a new gym at the Quitman County Middle School. Contracts have not been entered into at this point.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the QUITMAN COUNTY SCHOOL DISTRICT, Quitman County Courthouse Annex, Marks, MS 38646.

QUITMAN COUNTY SCHOOL DISTRICT

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QUITMAN COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS

QUITMAN COUNTY SCHOOL DISTRICT

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QUITMAN COUNTY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2004

Exhibit A

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 2,479,896
Due from other governments	289,400
Inventories and prepaid items	13,357
Restricted assets	170,020
Capital assets, net	<u>1,640,781</u>
 Total Assets	 <u>4,593,454</u>
Liabilities	
Accounts payable and accrued liabilities	166,793
Deferred revenue	110,311
Due to other governments	481,203
Interest payable on long-term liabilities	17,808
Long-term liabilities, due within one year	
Capital related liabilities	163,142
Long-term liabilities, due beyond one year	
Capital related liabilities	1,720,135
Non-capital related liabilities	<u>49,706</u>
 Total Liabilities	 <u>2,709,098</u>
Net Assets	
Investment in capital assets, net of related debt	(242,496)
Restricted net assets:	
Expendable:	
School-based activities	771,956
Capital improvements	14,180
Debt service	227,004
Forestry improvements	23,262
Unemployment benefits	25,570
Unrestricted	<u>1,064,880</u>
 Total Net Assets	 \$ <u><u>1,884,356</u></u>

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

QUITMAN COUNTY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2004

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental Activities:					
Instruction	\$ 6,208,963	61,257	1,278,169		(4,869,537)
Support services	4,110,148		1,178,220		(2,931,928)
Non-instructional	1,104,635	62,916	907,376		(134,343)
Sixteenth section	22,831				(22,831)
Interest on long-term liabilities	114,155				(114,155)
Total Governmental Activities	\$ 11,560,732	124,173	3,363,765	0	(8,072,794)
General Revenues:					
Taxes:					
					1,590,448
					78,295
Unrestricted grants and contributions:					
					6,286,229
					47,557
					12,514
					122,478
					101,450
					<u>8,238,971</u>
					166,177
					1,656,856
					61,323
					<u>1,718,179</u>
					\$ <u>1,884,356</u>

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

QUITMAN COUNTY SCHOOL DISTRICT
 Balance Sheet - Governmental Funds
 June 30, 2004

Exhibit C

	Major Funds		Other Governmental Funds	Total Governmental Funds
	General Fund	Title I Fund		
ASSETS				
Cash and cash equivalents	\$ 1,578,089	170	901,637	2,554,898
Investments			170,020	95,018
Due from other governments	81,491		207,909	289,400
Due from other funds	316,833	153,560	209,943	680,336
Advances to other funds			7,000	7,000
Inventories and prepaid items			13,357	13,357
Total Assets	\$ 1,976,413	153,730	1,509,866	3,640,009
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 164,645		2,148	166,793
Due to other funds	697,182	122,608	341,749	1,161,539
Advances from other funds			7,000	7,000
Deferred revenue		31,122	79,189	110,311
Total Liabilities	861,827	153,730	430,086	1,445,643
Fund Balances:				
Reserved for:				
Advances			7,000	7,000
Inventory			13,357	13,357
Capital projects			14,180	14,180
Debt service			244,812	244,812
Unreserved:				
Undesignated, reported in:				
General Fund	1,114,586			1,114,586
Special Revenue Funds			800,431	800,431
Total Fund Balances	1,114,586	0	1,079,780	2,194,366
Total Liabilities and Fund Balances	\$ 1,976,413	153,730	1,509,866	3,640,009

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

QUITMAN COUNTY SCHOOL DISTRICT

Exhibit C-1

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2004

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 2,194,366
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets are used in governmental activities and are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$2,497,902.	1,640,781
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(1,932,983)
3. Governmental funds recognize interest on long-term debt when it becomes due, however the Statement of Net Assets recognizes interest as it accrues.	<u>(17,808)</u>
Total Net Assets - Governmental Activities	<u>\$ 1,884,356</u>

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

QUITMAN COUNTY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2004

Exhibit D

	Major Funds		Other Governmental Funds	Total Governmental Funds
	General Fund	Title I Fund		
Revenues:				
Local sources	\$ 1,697,760	2,165	206,955	1,906,880
State sources	6,156,315		582,191	6,738,506
Federal sources	47,557	824,195	2,087,293	2,959,045
Sixteenth section sources			122,478	122,478
Total Revenues	<u>7,901,632</u>	<u>826,360</u>	<u>2,998,917</u>	<u>11,726,909</u>
Expenditures:				
Instruction	4,458,948	381,372	1,372,872	6,213,192
Support services	2,806,417	593,827	566,805	3,967,049
Noninstructional services	148,853	54,505	872,254	1,075,612
Sixteenth section			22,831	22,831
Debt service:				
Principal	5,154		146,027	151,181
Interest			124,055	124,055
Other			658	658
Total Expenditures	<u>7,419,372</u>	<u>1,029,704</u>	<u>3,105,502</u>	<u>11,554,578</u>
Excess (Deficiency) of Revenues over Expenditures	<u>482,260</u>	<u>(203,344)</u>	<u>(106,585)</u>	<u>172,331</u>
Other Financing Sources (Uses):				
Operating transfers in	223,593	251,718	576,505	1,051,816
Operating transfers out	<u>(490,718)</u>	<u>(47,190)</u>	<u>(513,908)</u>	<u>(1,051,816)</u>
Total Other Financing Sources (Uses)	<u>(267,125)</u>	<u>204,528</u>	<u>62,597</u>	<u>0</u>
Net Change in Fund Balances	<u>215,135</u>	<u>1,184</u>	<u>(43,988)</u>	<u>172,331</u>
Fund Balances:				
July 1, 2003	899,451	(1,184)	1,131,379	2,029,646
Prior period adjustments			(937)	(937)
July 1, 2003, as restated	<u>899,451</u>	<u>(1,184)</u>	<u>1,130,442</u>	<u>2,028,709</u>
Decrease in reserve for inventory	<u>0</u>	<u>0</u>	<u>(6,674)</u>	<u>(6,674)</u>
June 30, 2004	<u>\$ 1,114,586</u>	<u>0</u>	<u>1,079,780</u>	<u>2,194,366</u>

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

QUITMAN COUNTY 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, 2004

Exhibit D-1

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ 172,331
Amounts reported for governmental activities in the Statement of Activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchased amounted to \$8,484 and the depreciation expense amounted to \$204,434.	(195,950)
2. Governmental funds recognize interest on long-term debt when it becomes due, however, the Statement of Activities recognizes interest as it accrues regardless of when it becomes due.	10,558
3. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Activities.	151,181
4. Gains and losses on the sale or disposals of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds.	(146)
5. Decrease in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are increased in the Statement of Activities.	(6,674)
6. Expenses in the Statement of Activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds:	
Compensated absences	<u>34,877</u>
Change in Net Assets of Governmental Activities	<u>\$ 166,177</u>

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

QUITMAN COUNTY SCHOOL DISTRICT
Statement of Fiduciary Net Assets
June 30, 2004

Exhibit E

		Agency Funds
Assets		<u> </u>
Cash and cash equivalents	\$	29,180
Due from other funds		<u>522,967</u>
Total Assets	\$	<u><u>552,147</u></u>
Liabilities		
Accounts payable and accrued liabilities	\$	488,139
Due to other funds		41,764
Due to student clubs		<u>22,244</u>
Total Liabilities	\$	<u><u>552,147</u></u>

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

QUITMAN COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2004

(1) Summary of Significant Accounting Policies.

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

A. Financial Reporting Entity.

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

The Quitman County Leasing Authority ("the Authority") as explained in the following paragraph is considered to be a blended component unit as determined by Section 2100 of the *Codification of Governmental Accounting and Financial Reporting Standards* and is included in the district's reporting entity.

The Authority is governed by a three member board which was appointed by the school district's governing board. Although it is legally separate from the school district, it is reported as if it is part of the primary government because its sole purpose is to provide financing for the renovation, improvement, construction, and equipping of certain school facilities. Therefore, all of the Authority's assets, liabilities, equity, revenues, expenditures and other financing sources and uses have been included in the government-wide financial statements of the school district (see Note 11).

B. Basis of Presentation.

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

Government-wide Financial Statements:

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

QUITMAN COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2004

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

Fund Financial Statements:

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

C. Measurement Focus and Basis of Accounting.

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

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

The school district reports the following major governmental funds:

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

Title I Fund - This fund accounts for a federal grant which is used to supplement educational services for disadvantaged children.

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

QUITMAN COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2004

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

FIDUCIARY FUNDS

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

D. Account Classifications.

The account classifications used in the financial statements conform to the classifications prescribed in the *Financial Accounting Manual for Mississippi Public School Districts* issued by the Office of the State Auditor. The classifications in that manual are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 1990* issued by the U.S. Department of Education.

E. Encumbrances.

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

F. Cash and Cash Equivalents.

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

Cash and cash equivalents consists of amounts on deposit in demand accounts and certificates of deposit with maturities of 12 months or less. Cash and cash equivalents are valued at cost.

G. Investments.

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

For accounting purposes, certificates of deposit are classified as investments if they have a maturity greater than 12 months when acquired.

QUITMAN COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2004

H. Inventories and Prepaid Items.

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

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

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

I. Capital Assets.

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

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

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

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

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

J. Long-term Liabilities.

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

QUITMAN COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2004

K. Interfund Transactions and Balances.

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

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

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

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

L. Equity Classifications.

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

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

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

QUITMAN COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2004

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

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

Reserved for debt service - An account that represents a portion of fund balance which indicates that debt service money does not represent available spendable resources even though they are a component of net current assets.

M. Property Taxes.

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

N. Mississippi Adequate Education Program Revenues.

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

O. Compensated Absences.

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

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

(2) Cash and Cash Equivalents and Investments.

Cash and Cash Equivalents.

The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

QUITMAN COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2004

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$2,554,898 and \$29,180, respectively. The bank balance was \$4,472,204.

Investments.

Except for nonparticipating investment contracts and for participating interest-earning investment contracts and money market investments that had a remaining maturity at the time of purchase of one year or less, investments are reported at fair value which is based on quoted market price. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost. Participating interest-earning investment contracts and money market investments that had a remaining maturity at time of purchase of one year or less are reported at amortized cost.

Investments made by the school district that are included on the balance sheet at year-end consisted of shares in an open-end mutual fund which invests primarily in U.S. Treasuries, government agency securities and repurchase agreements backed by government securities. The market value of these shares in the Federated Government obligations mutual fund at June 30, 2004, was \$95,018.

(3) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds.

	<u>Due From</u>	<u>Due To</u>
Governmental Funds:		
General Fund	\$ 316,833	697,182
Title I fund	153,560	122,608
Other governmental funds	209,943	341,749
Fiduciary Funds	<u>522,967</u>	<u>41,764</u>
Total	<u>\$ 1,203,303</u>	<u>1,203,303</u>

B. Advances To/From Other Funds.

	<u>Advances To</u>	<u>Advances From</u>
Governmental Funds:		
Other governmental funds	\$ <u>7,000</u>	<u>7,000</u>
Total	<u>\$ 7,000</u>	<u>7,000</u>

QUITMAN COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2004

C. Transfers In/Out.

	<u>Transfer In</u>	<u>Transfers Out</u>
Governmental Funds:		
General Fund	\$ 223,593	490,718
Title I Fund	251,718	47,190
Other governmental funds	<u>576,505</u>	<u>513,908</u>
Total	<u>\$ 1,051,816</u>	<u>1,051,816</u>

(4) Capital Assets.

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

	Balance 7-1-2003	Additions	Retirements	Adjustments	Balance 6-30-2004
<u>Non-depreciable capital assets:</u>					
Land	\$ 76,652				76,652
Total non-depreciable capital assets	<u>76,652</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>76,652</u>
<u>Depreciable capital assets:</u>					
Buildings	2,466,331				2,466,331
Mobile equipment	1,228,568				1,228,568
Furniture and equipment	347,469	8,484	14,591		341,362
Leased property under capital leases	25,770				25,770
Total depreciable capital assets	<u>4,068,138</u>	<u>8,484</u>	<u>14,591</u>	<u>0</u>	<u>4,062,031</u>
<u>Less accumulated depreciation for:</u>					
Buildings	1,236,072	51,992		(25,218)	1,262,846
Mobile equipment	853,381	110,571		(63,463)	900,489
Furniture and equipment	317,515	41,871	14,445	(21,308)	323,633
Leased property under capital leases	10,204			730	10,934
Total accumulated depreciation	<u>2,417,172</u>	<u>204,434</u>	<u>14,445</u>	<u>(109,259)</u>	<u>2,497,902</u>
Total depreciable capital assets, net	<u>1,650,966</u>	<u>(195,950)</u>	<u>146</u>	<u>109,259</u>	<u>1,564,129</u>
Governmental activities capital assets, net	<u>\$ 1,727,618</u>	<u>(195,950)</u>	<u>146</u>	<u>109,259</u>	<u>1,640,781</u>

QUITMAN COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2004

Adjustments were made to correct prior year error in recording accumulated depreciation.

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 39,132
Support services	142,953
Non-instructional	22,349
 Total Depreciation Expense	 \$ 204,434

(5) Long-term Liabilities.

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

		Balance 7-1-2003	Additions	Reductions	Adjustments	Balance 6-30-2004	Amounts due within one year
A.	Certificates of participation payable	\$ 1,830,219		87,091		1,743,128	92,316
B.	Three mill notes payable	197,207		58,936	(3,276)	134,995	65,672
C.	Obligations under capital leases	10,308		5,154		5,154	5,154
D.	Compensated absences payable	84,583		34,877		49,706	
	Total	\$ 2,122,317	0	186,058	(3,276)	1,932,983	163,142

A. Certificates of participation payable.

As more fully explained in Note 11, certificates of participation have been issued by the school district. Certificates of participation currently outstanding are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Certificates of participation, Series 1997	8.5%	03-26-1997	03-26-2017	\$ 2,235,000	1,743,128
Total				\$ 2,235,000	1,743,128

QUITMAN COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2004

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

	Year Ending June 30	Principal	Interest	Total
2005	\$	92,316	104,588	196,904
2006		97,855	99,049	196,904
2007		103,727	93,177	196,904
2008		109,950	86,954	196,904
2009		116,547	80,357	196,904
2010-2014		696,406	288,114	984,520
2015-2019		526,327	64,385	590,712
Total	\$	<u>1,743,128</u>	<u>816,624</u>	<u>2,559,752</u>

This debt will be retired from the Other Debt Retirement Fund.

B. Three mill notes payable.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Three mill notes payable, Series 1996	5.56%	06-01-1996	02-01-2006	\$ 550,000	134,995
Total				\$ <u>550,000</u>	<u>134,995</u>

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

	Year Ending June 30	Principal	Interest	Total
2005	\$	65,672	7,505	73,177
2006		69,323	3,853	73,176
Total	\$	<u>134,995</u>	<u>11,358</u>	<u>146,353</u>

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

C. Obligations under capital leases.

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

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

The district may purchase the equipment at the end of the lease for \$1.

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

QUITMAN COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2004

Year Ending June 30	Principal	Total
2005	\$ 5,154	5,154
Total	\$ <u>5,154</u>	<u>5,154</u>

This debt will be retired from the District Maintenance Fund.

D. Compensated absences payable.

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

(6) Defined Benefit Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The current rate is 9.75% 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, 2004, 2003 and 2002 were \$575,512, \$501,885 and \$478,919, respectively, which equaled the required contributions for each year.

(7) Other Commitments.

Operating leases:

The school district has an operating lease for an ATT telephone system.

Lease expenditures for the year ended June 30, 2004, amounted to \$310. Future lease payments for this lease are as follows:

Year Ending June 30	Amount
2005	\$ <u>310</u>
Total	\$ <u><u>310</u></u>

QUITMAN COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2004

(8) Sixteenth Section Lands.

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

Year Ending June 30	Amount
2005	\$ 172,688
2006	92,478
2007	<u>89,637</u>
Total	<u>\$ 354,803</u>

(9) Prior Period Adjustments/Exhibits.

A summary of significant fund equity adjustments is as follows:

Exhibit B - Statement of Activities

<u>Explanations</u>	<u>Amount</u>
1. To correct a prior year error in recording capital assets.	\$ 109,259
2. To correct a prior year error in recording long-term liabilities.	3,276
3. To correct a prior year error in recording leases receivable.	(50,275)
4. To correct a prior year error in recording an asset or liability.	<u>(937)</u>
Total	<u>\$ 61,323</u>

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

<u>Major Funds</u>	<u>Explanation</u>	<u>Amount</u>
Other governmental funds	To correct a prior year error in recording an asset or liability.	\$ <u>(937)</u>
Total		<u>\$ (937)</u>

QUITMAN COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2004

(10) Risk Management.

The school district is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. 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 127 school districts and covers risks of loss arising from injuries to the school district's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by BancorpSouth Bank in Jackson. The funds in the trust account are used to pay any claim up to \$300,000. For a claim exceeding \$300,000, MSBAWCT has insurance which will pay the excess up to \$25,000,000. 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.

(11) Trust Certificates.

A trust agreement dated March 26, 1997, was executed by and between the school district and First Security Bank, as trustees.

The trust agreement authorized the issuance of trust certificates in the principal amount of \$2,235,000. Approximately \$2,199,099 was used to provide financing for the construction and renovation of school buildings and related facilities and equipment (the "project"); the remainder of approximately \$35,901 was used to pay the cost of issuance.

The project is leased to the school district in accordance with the provisions of the Emergency School Leasing Authority Act as described in Section 37-7-351, *et seq.*, Miss. Code Ann. (1972). The lease represents a capital lease under which ownership of the project will transfer to the school district upon complete retirement of the trust certificates. The school district is obligated to make lease payments to the trustee in an amount equal to the debt service requirements for the trust certificates. The lease rental payments by the school district are used by the trustee to pay the principal and interest payments due on the trust certificates.

It is not anticipated the project will have sufficient value to satisfy the certificates in the event the school district defaults under the lease; therefore, the source of payment of the certificates is the responsibility of the school district. See Note (5) for details regarding the debt service requirement on the trust certificates.

Using the guidance provided in Section 2100 of the *Codification of Governmental Accounting and Financial Reporting Standards* dealing with defining the reporting entity, the trust accounts created by this trust agreement were deemed to constitute an inseparable part of the school district. Therefore, the assets, liabilities, equity, revenues, expenditures and other financing sources/uses of the trust accounts created by this trust agreement are part of the school district's financial statements, thereby eliminating the effects of the lease agreement for financial reporting purposes.

QUITMAN COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2004

(12) Alternative School Consortium.

The school district entered into an Alternative School Agreement dated August 10, 2000, creating the North Delta Alternative School. This consortium was created pursuant to the provisions of Section 37-13-92(6), Miss. Code Ann. (1972), and approved by the Mississippi Department of Education and includes the West Tallahatchie School District, Quitman County School District, Coahoma County School District, Coahoma Agricultural High School, Drew School District, Sunflower County School District, East Tallahatchie School District, North Bolivar School District and Mound Bayou School District.

Section 37-13-92(6), Miss. Code Ann. (1972), allows two or more adjacent school districts to enter into a contract to operate an alternative school program. The school board of the school district designated by the agreement as the lead district will serve as the governing board of the alternative school program. Transportation for students attending the alternative school program will be the responsibility of the individual school district sending the students.

The West Tallahatchie School District has been designated as the lead school district for the North Delta Alternative School, and the operations of the consortium are included in its financial statements.

(13) Twenty-first Century Community Learning Center Consortiums.

North Delta Twenty-first Century Community Learning Center Consortium.

The school district entered into a Community Learning Center Agreement dated March 15, 2000, creating the North Delta Twenty-first Century Community Learning Center Consortium. This consortium was created pursuant to the provisions of Section 37-7-301(dd), Miss. Code Ann. (1972), and approved by the Mississippi Department of Education. The consortium includes the Youth Opportunities Unlimited, Inc., North Panola School District, West Tallahatchie School District, North Delta Mississippi Enterprise Community, Delta Rural Systems Initiative, Northwest Mississippi Community College, Coahoma Community College, Quitman County Development Organization, Mississippi State Cooperative Extension Service, Batesville, MS Police Department, Northwest Mississippi Public Health District Number 1, and University of Mississippi Institute of Continuing Studies.

Delta Horizon Twenty-first Century Community Learning Center Consortium.

The school district entered into a Community Learning Center Agreement dated March 7, 2000, creating the Delta Horizon Twenty-first Century Community Learning Center Consortium. This consortium was created pursuant to the provisions of Section 37-7-301(dd), Miss. Code Ann. (1972), and includes Cleveland Alternative Center, East Side High School, R. H. Bearden Elementary School, O'Bannon High School, Riverside High School, Manning Elementary School, Greenville Public School District, Webb Elementary School, Garrett Hall Alternative School, Gentry High School, Simmons High School, Indianola Junior High School and Quitman County Middle School.

QUITMAN COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2004

The following Statement of Revenues, Expenditures and Changes in Fund Balance is presented to detail the financial activity of the North Delta Twenty-first Century Community Learning Center Consortium.

Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds
For the Year Ended June 30, 2004

Revenues	
Federal sources	\$ 429,348
Total Revenues	<u>429,348</u>
Expenditures	
Salaries	276,022
Employee benefits	46,637
Purchased professional and technical services	11,689
Purchased property services	205
Other purchased services	31,724
Supplies	8,151
Property	4,315
Other	50,550
Total Expenditures	<u>429,293</u>
Excess (Deficiency) of Revenues over Expenditures	<u>55</u>
Net Change in Fund Balance	<u>55</u>
Fund Balance:	
July 1, 2003	<u>(55)</u>
June 30, 2004	<u>\$ 0</u>

(14) Subsequent Events.

On July 2, 2004, the district refunded the Series 1997 Trust Certificates of Participation held at First Security Bank, Batesville, MS. The Series 1997 was replaced by a current issue held by the new escrow agent, Hancock Bank, Gulfport, MS.

QUITMAN COUNTY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

QUITMAN COUNTY SCHOOL DISTRICT

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QUITMAN COUNTY SCHOOL DISTRICT
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2004

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 1,481,953	1,697,760	1,697,760	215,807	
State sources	5,909,530	6,156,315	6,156,315	246,785	
Federal sources	115,200	47,557	47,557	(67,643)	
Sixteenth section sources	25,000	14,845		(10,155)	(14,845)
Total Revenues	<u>7,531,683</u>	<u>7,916,477</u>	<u>7,901,632</u>	<u>384,794</u>	<u>(14,845)</u>
Expenditures:					
Instruction	4,512,181	4,150,555	4,458,948	361,626	(308,393)
Support services	2,882,265	2,770,601	2,806,417	111,664	(35,816)
Noninstructional services	134,237	139,532	148,853	(5,295)	(9,321)
Sixteenth section	3,000	100		2,900	100
Debt service: principal			5,154		(5,154)
Total Expenditures	<u>7,531,683</u>	<u>7,060,788</u>	<u>7,419,372</u>	<u>470,895</u>	<u>(358,584)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>0</u>	<u>855,689</u>	<u>482,260</u>	<u>855,689</u>	<u>(373,429)</u>
Other Financing Sources (Uses):					
Operating transfers in	324,905	223,593	223,593	(101,312)	
Other financing sources	25,000			(25,000)	
Operating transfers out	(638,211)	(381,409)	(490,718)	256,802	(109,309)
Total Other Financing Sources (Uses)	<u>(288,306)</u>	<u>(157,816)</u>	<u>(267,125)</u>	<u>130,490</u>	<u>(109,309)</u>
Net Change in Fund Balances	<u>(288,306)</u>	<u>697,873</u>	<u>215,135</u>	<u>986,179</u>	<u>(482,738)</u>
Fund Balances:					
July 1, 2003	1,304,585	811,791	899,451	(492,794)	87,660
Prior period adjustments		87,659		87,659	(87,659)
July 1, 2003, Restated	<u>1,304,585</u>	<u>899,450</u>	<u>899,451</u>	<u>(405,135)</u>	<u>1</u>
June 30, 2004	\$ <u>1,016,279</u>	<u>1,597,323</u>	<u>1,114,586</u>	<u>581,044</u>	<u>(482,737)</u>

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

QUITMAN COUNTY SCHOOL DISTRICT
 Budgetary Comparison Schedule
 Title I Fund
 For the Year Ended June 30, 2004

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$	2,165	2,165	2,165	
Federal sources	1,088,947	824,195	824,195	(264,752)	
Total Revenues	<u>1,088,947</u>	<u>826,360</u>	<u>826,360</u>	<u>(262,587)</u>	<u>0</u>
Expenditures:					
Instruction	408,165	355,606	381,372	52,559	(25,766)
Support services	588,988	575,384	593,827	13,604	(18,443)
Noninstructional services	69,600	46,996	54,505	22,604	(7,509)
Total Expenditures	<u>1,066,753</u>	<u>977,986</u>	<u>1,029,704</u>	<u>88,767</u>	<u>(51,718)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>22,194</u>	<u>(151,626)</u>	<u>(203,344)</u>	<u>(173,820)</u>	<u>(51,718)</u>
Other Financing Sources (Uses):					
Operating transfers in		200,000	251,718	200,000	51,718
Operating transfers out		(47,190)	(47,190)	(47,190)	
Total Other Financing Sources (Uses)	<u>0</u>	<u>152,810</u>	<u>204,528</u>	<u>152,810</u>	<u>51,718</u>
Net Change in Fund Balances	<u>22,194</u>	<u>1,184</u>	<u>1,184</u>	<u>(21,010)</u>	<u>0</u>
Fund Balances:					
July 1, 2003	<u>(1,184)</u>	<u>(1,184)</u>	<u>(1,184)</u>	<u>0</u>	<u>0</u>
June 30, 2004	<u>\$ 21,010</u>	<u>0</u>	<u>0</u>	<u>(21,010)</u>	<u>0</u>

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

QUITMAN COUNTY SCHOOL DISTRICT

Notes to the Required Supplementary Information
For the Year Ended June 30, 2004

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 the date established by the Mississippi Department of Education. A budgetary comparison is presented for the General Fund and the Title I Fund consistent with accounting principles generally accepted in the United States of America.

QUITMAN COUNTY SCHOOL DISTRICT

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QUITMAN COUNTY SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

QUITMAN COUNTY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2004

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	\$ 45,492
Child nutrition cluster:		
School breakfast program	10.553	218,561
National school lunch program	10.555	563,549
Summer food service program for children	10.559	15,244
Total child nutrition cluster		<u>797,354</u>
Total U.S. Department of Agriculture		<u>842,846</u>
<u>U.S. Department of Education</u>		
Direct program:		
Twenty-first century community learning centers	84.287	429,293
Total		<u>429,293</u>
Passed-through Greenville Public School District:		
Twenty-first century community learning centers	84.287	71,194
Total		<u>71,194</u>
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	823,290
Vocational education - basic grants to states	84.048	44,316
Safe and drug-free schools and communities - state grants	84.186	20,859
State grants for innovative programs	84.298	25,620
Education technology state grants	84.318	20,805
Rural education	84.358	46,207
Improving teacher quality - state grants	84.367	380,491
Total		<u>1,361,588</u>
Special education cluster:		
Special education - grants to states	84.027	226,732
Special education - preschool grants	84.173	1,786
Total special education cluster		<u>228,518</u>
Total passed-through Mississippi Department of Education		<u>1,590,106</u>
Total U.S. Department of Education		<u>2,090,593</u>
<u>Corporation for National and Community Service</u>		
Passed-through the Mississippi Department of Education:		
Learn and serve America - school and community based programs	94.004	13,000
Total Corporation for National and Community Service		<u>13,000</u>
Total for All Federal Awards		<u>\$ 2,946,439</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.

QUITMAN COUNTY SCHOOL DISTRICT
 Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
 For the Year Ended June 30, 2004

<u>Expenditures</u>	<u>Total</u>	<u>Instruction</u>	<u>Administrative</u>	<u>Other</u>
Salaries and fringe benefits	\$ 8,231,091	5,395,306	1,005,045	1,830,740
Other	<u>3,323,487</u>	<u>817,886</u>	<u>312,657</u>	<u>2,192,944</u>
Total	\$ <u>11,554,578</u>	<u>6,213,192</u>	<u>1,317,702</u>	<u>4,023,684</u>
Total number of students	<u>1,586</u>			
Cost per student	\$ <u>7,285</u>	<u>3,918</u>	<u>831</u>	<u>2,537</u>

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

Instruction - 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 functional codes).

Administrative - includes expenditures for the following functions: support services - general administration (2300s); support services - school administration (2400s); and support services - business (2500s).

Other - includes all expenditure functions not included in instruction or administrative.

QUITMAN COUNTY SCHOOL DISTRICT

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QUITMAN COUNTY SCHOOL DISTRICT

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

QUITMAN COUNTY SCHOOL DISTRICT

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State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

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

Superintendent and School Board
Quitman County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Quitman County School District as of and for the year ended June 30, 2004, which collectively comprise Quitman County School District's basic financial statements, and have issued our report thereon dated November 18, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the school district's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the school district's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the Schedule of Findings and Questioned Costs as Findings 04-1 through 04-4.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions and, accordingly, would not also disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions referred to above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the school district in a separate letter dated November 18, 2005, which is included in this report.

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



PHIL BRYANT
State Auditor



WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

November 18, 2005



State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Superintendent and School Board
Quitman County School District

Compliance

We have audited the compliance of the Quitman County School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The school district's major federal programs are identified in the summary of auditor's results section of the 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, Quitman County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the Schedule of Findings and Questioned Costs as Finding 04-5.

Internal Control Over Compliance

The management of the Quitman County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the school district's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.


We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the school district's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the Schedule of Findings and Questioned Costs as Finding 04-6.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described in the finding referred to above is not a material weakness.

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



PHIL BRYANT
State Auditor



WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

November 18, 2005

QUITMAN COUNTY SCHOOL DISTRICT

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

QUITMAN COUNTY SCHOOL DISTRICT

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State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

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

Superintendent and School Board
Quitman County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Quitman County School District as of and for the year ended June 30, 2004, which collectively comprise Quitman County School District's basic financial statements, and have issued our report thereon dated November 18, 2005. 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), 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 the following instance of noncompliance. The noncompliance is reported in Finding 4 below. The district reported \$13,943 of classroom supply funds carried over from previous years.

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

1. Finding

The surety bond of the superintendent was not recorded in the office of the chancery clerk.

Recommendation

The district should comply with Section 25-1-19, Miss. Code Ann. (1972), which requires surety bonds be recorded and on file in the office of the chancery clerk.

School District's Response

The finding has been corrected.

2. Finding

A school principal, acting as a purchasing agent for the district, was not covered by a separate surety bond.

Recommendation

The district should comply with Section 37-39-21, Miss. Code Ann. (1972), which requires any official acting as a purchasing agent be covered by an individual surety bond in the penal sum of at least \$50,000. Additionally, the bond must be filed and recorded in the office of the chancery clerk.

School District's Response

School principals are no longer a purchasing agent.

3. Finding

The district did not maintain the required balance in the unemployment compensation revolving fund. The amount of the deficit was \$24,993.

Recommendation

The district should comply with Section 71-5-359, Miss. Code Ann. (1972), which requires the district to maintain a cash and investments balance of 2% of covered wages.

School District's Response

The finding has been corrected.

4. Finding

The district did not maintain spending records and spending plans for Education Enhancement Funds (EEF) instructional materials and supply funds for two of its schools.

Recommendation

The district should comply with Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), which requires districts to maintain information on each teacher's allocation, expenditures and balances.

School District's Response

The district will spot check school records.

5. Finding

The district transferred funds from the sixteenth section interest fund prior to board approval.

Recommendation

The district should comply with Section 29-3-117, Miss. Code Ann. (1972), which requires all expendable sixteenth section revenues to which a school district shall become entitled from interest and other sources to be transferred only on order of the board of education.

School District's Response

The board will approve transfers of sixteenth section funds before they are transferred.

6. Finding

Total ad valorem and homestead receipts exceeded the amount allowable. The district failed to place the excess amount in escrow at June 30, 2004, and reduce the subsequent year request for ad valorem taxes.

Recommendation

The district should comply with Section 37-57-107, Miss. Code Ann. (1972), which requires the district to escrow the excess received above the allowable amount.

School District's Response

The district will comply with Section 37-57-107, Miss. Code Ann. (1972).

7. Finding

The final amended budget was not incorporated into the board minutes.

Recommendation

The district should comply with Section 37-61-21, Miss. Code Ann. (1972), which requires the amended budget to be incorporated in the minutes of the school board by spreading them on the minutes or by attaching it as an addendum.

School District's Response

The district will comply with Section 37-61-21, Miss. Code Ann. (1972).

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

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



PHIL BRYANT
State Auditor



WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

November 18, 2005

QUITMAN COUNTY SCHOOL DISTRICT

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QUITMAN COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

QUITMAN COUNTY SCHOOL DISTRICT

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QUITMAN COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2004

Section 1: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|---|-------------|
| 1. | Type of auditor's report issued on the financial statements: | Unqualified |
| 2. | Material noncompliance relating to the financial statements? | No |
| 3. | Internal control over financial reporting: | |
| a. | Material weakness(es) identified? | No |
| b. | Reportable condition(s) identified that are not considered to be material weaknesses? | Yes |

Federal Awards:

- | | | |
|-----|---|-------------|
| 4. | Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 5. | Internal control over major programs: | |
| a. | Material weakness(es) identified? | No |
| b. | Reportable condition(s) identified that are not considered to be material weaknesses? | Yes |
| 6. | Any audit finding(s) reported as required by Section ____510(a) of Circular A-133? | Yes |
| 7. | Federal programs identified as major programs: | |
| a. | Child nutrition cluster
CFDA #10.553
CFDA #10.555
CFDA #10.559 | |
| b. | Title I grants to local educational agencies
CFDA #84.010 | |
| c. | Twenty-first century community learning centers
CFDA #84.287 | |
| d. | Improving teacher quality state grants
CFDA #84.367 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | No |
| 10. | Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____315(b) of OMB Circular A-133? | Yes |

QUITMAN COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2004

Section 2: Financial Statement Findings

Reportable Conditions Not Considered to be Material Weaknesses

04-1. Finding

The following weaknesses were noted during our examination of cash and other deposits:

- A. The high school activity trust bank account was reconciled to a bank balance dated June 20, 2004.
- B. The district carried on its records a bank account of a school that has been closed for several years. In addition, the bank account was reconciled using a bank balance statement date of July 5, 2004.
- C. The district disbursed funds from the sixteenth section forestry escrow bank account using checks that were not numbered.

Recommendation

The district should reconcile its financial records to a bank statement with a cut off as the end of the month. In addition, the district should review its existing bank accounts and close any bank accounts that are non-operational or out of date. The district should also use numbered checks.

04-2. Finding

The following weaknesses were noted during our examination of accounts payable and accrued liabilities:

- A. The listing of detail claims payable for the General Fund did not agree with the reported amount of claims payable on the financial statements. The difference was \$63,776 which was not considered to be material.
- B. The claims payable listings appeared to be sorted from general ledger data files instead of the accounts payable expenditure and disbursement records normally maintained.
- C. The district did not provide support for a \$200 claims payable reported in the accounts payable clearing fund.

Recommendation

The district should develop policies and procedures to insure that amounts reported on the financial statements agree with the underlying subsidiary records.

04-3. Finding

The following weaknesses were noted during our examination of long-term debt reported on the district's financial statements at June 30, 2004:

- A. The district did not maintain adequate subsidiary debt ledgers.

QUITMAN COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2004

- B. The district's system of recording leave information for non-certified personnel in the payroll records was not functioning properly.

Recommendation

The district should implement policies and procedures to insure that long-term debt subsidiary records are properly maintained and recorded. We also recommend that the district implement procedures to insure that the payroll system of recording leave information is functioning properly.

04-4. Finding

A review of 13 randomly selected activity fund receipts revealed that 11 were not deposited in a timely manner.

Recommendation

The district should implement procedures to insure that activity funds are deposited in a timely manner.

Section 3: Federal Award Findings and Questioned Costs

Immaterial Noncompliance

04-5. Finding

Program: Title I - grants to local educational agencies - CFDA #84.010; U.S. Department of Education; passed-through the Mississippi Department of Education.

Compliance requirement: Allowable costs/cost principles

Questioned costs: \$10,315

During our examination of payroll expenditures, it was noted that one employee's salary was allocated between District Maintenance Fund and Title I Fund. However, time sheets were not provided documenting the percentage of time spent performing program duties. Per review of the employee's payroll detail reports and calculation of benefits, \$10,315 of the employee's salary was paid from Title I Funds. This situation resulted in a questioned cost under the allowable costs/cost principles compliance requirements of the Title I program.

Recommendation

The district should implement procedures that will insure compliance with allowable costs provisions of OMB Circular A-87, which notes that support of salaries and wages, such as personnel activity reports or equivalent documentation, must meet the following standards:

- A. Reflect an after-the-fact distribution of the actual activity of each employee.
- B. Account for the total activity for which each employee is compensated.

QUITMAN COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2004

- C. Must be prepared at least monthly and must coincide with one or more pay periods.
- D. Must be signed by the employee.

Reportable Conditions Not Considered to be Material Weaknesses

04-6. Finding

Program: Twenty-first century community learning centers - CFDA #84.287; U.S. Department of Education.

Compliance requirement: Cash management

The district requested funds in excess of immediate need from the U.S. Department of Education. Interest earned on those funds was not properly reported and remitted. This situation represents a weakness over the controls surrounding the cash management requirement for this federal program. A similar finding was reported in the 2002-2003 audit report.

Recommendation

The district should implement policies that would help insure compliance with the cash management requirement for federal program funds, which requires the district to request funds in a manner that will allow for the disbursement of those funds in a timely manner. We also recommend any interest earned on excess federal program funds received be properly reported and remitted to the U.S. Department of Education.

QUITMAN COUNTY SCHOOL DISTRICT

AUDITEE'S CORRECTIVE ACTION PLAN
AND
SUMMARY OF PRIOR AUDIT FINDINGS

QUITMAN COUNTY SCHOOL DISTRICT

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**Department of Education
Quitman County
Valmadge Towner, Superintendent
Marks, Mississippi 38646**

P. O. Drawer C

**(662)326-5451
Fax (662)326-3694**

Financial & Compliance Audit Division

As required by Section __.315(c) of OMB Circular A-133, the Quitman County School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2004:

<u>Finding</u>	<u>Corrective Action Plan Details</u>
04-1	<p>a. Names of Contact Persons Responsible for Corrective Action:</p> <p>Miron Thompson, Business Manager Valmadge Towner, Superintendent (662)326-5451</p> <p>b. Corrective Action Planned:</p> <p>The district will reconcile its financial records to the bank statement with a cut off as the end of the month. In addition, the district will review its existing bank accounts and close any bank accounts that are non-operational or out of date. The district will also use prenumbered checks.</p> <p>c. Anticipated Completion Date:</p> <p>December 31, 2005</p>
04-2	<p>a. Names of Contact Persons Responsible for Corrective Action:</p> <p>Miron Thompson, Business Manager Valmadge Towner, Superintendent (662)326-5451</p> <p>b. Corrective Action Planned:</p> <p>The district will develop policies and procedures to insure that amounts reported on the financial statements agree with the the underlying subsidiary records.</p>

c. Anticipated Completion Date:

December 31, 2005

04-3

a. Names of Contact Persons Responsible for Corrective Action:

Miron Thompson, Business Manager
Valmadge Towner, Superintendent
(662)326-5451

b. Corrective Action Planned:

The district will implement policies and procedures to insure that that long-term debt subsidiary records are properly maintained and and recorded. Also, the district will implement procedures to ensure that the payroll system of recording leave information is functioning properly.

c. Anticipated Completion Date:

December 31, 2005

04-4

a. Names of Contact Persons Responsible for Corrective Action:

Miron Thompson, Business Manager
Valmadge Towner, Superintendent
(662)326-5451

b. Corrective Action Planned:

The district will implement procedures to insure that activity funds are deposited in a timely manner.

c. Anticipated Completion Date:

November 30, 2005

04-5

a. Names of Person Responsible for Corrective Action:

Miron Thompson, Business Manager
Valmadge Towner, Superintendent
(662)326-5451

b. Corrective Action Planned:

The district will implement procedures that will insure compliance with allowable costs provisions of OMB Circular A-87, which notes that support of salaries and wages, such as personnel activity reports or equivalent documentation, meet standards.

b. Anticipated Completion Date:

December 31, 2005

04-6

a. Names of Persons Responsible for Corrective Action:

Miron Thompson, Business Manager
Valmadge Towner, Superintendent
(662)326-5451

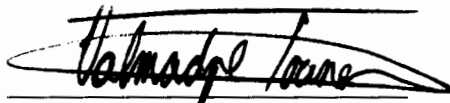
b. Corrective Action Planned:

The district will implement policies that will help insure compliance with the cash management requirement for federal program funds, which requires the district to request funds in a manner that will allow for the disbursement of those funds in a timely manner. We will make sure that any interest earned on excess federal program funds received be properly reported and remitted to the U.S. Department of Education.

c. Anticipated Completion Date:

January 31, 2005

Sincerely yours,



Superintendent

Department of Education
Quitman County
Valmadge Towner, Superintendent
Marks, Mississippi 38646

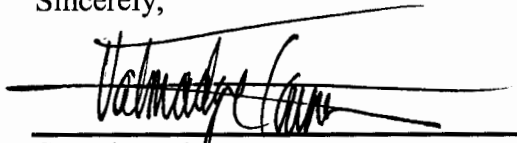
P. O. Drawer C

(662)326-5451
Fax (662)326-3694

As required by Section _____ .315(b) of OMB Circular A-133, the Quitman County School District has prepared and hereby submits the following summary schedule of prior audit findings as of June 27, 2005.

<u>Finding</u>	<u>Status</u>
03-4	The finding has been corrected.
03-5	The finding has been corrected.

Sincerely,



Superintendent