



Audited Financial Statements
June 30, 2008

Fortenberry & Ballard, PC
Certified Public Accountants

**Quitman County School District
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FINANCIAL AUDIT REPORT

Fortenberry & Ballard, PC
Certified Public Accountants

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

Superintendent and School Board
Quitman County School District

We have audited the accompanying 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, 2008, 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, 2008, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2009 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 14 and the Budgetary Comparison Schedule and corresponding notes on pages 46 through 47 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,

AICPA & MSCPA

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

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

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, P.C.
July 31, 2009

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

FINANCIAL HIGHLIGHTS

- Total net assets decreased \$153,656, including a prior period adjustment of \$77,699 which represents 10% decrease from fiscal year 2007.
- General revenues accounted for \$9,638,793 in revenue, or 72% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$3,760,035 or 28% of total revenues.
- The District had \$13,630,183 in expenses; only \$3,760,035 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$9,638,793 were not adequate to provide for these programs.
- Among major funds, the General Fund had \$9,140,543 in revenues and \$9,291,472 in expenditures. The General Fund's fund balance decreased \$370,056 over the prior year.
- Capital assets, net of accumulated depreciation, increased by \$60,278. The cause of this increase was mainly due to the additions of furniture and equipment and improvements other than buildings.
- Long-term debt decreased by \$99,963 mainly due to repayment of debt.

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.

The government-wide financial statements can be found on pages 16 and 17 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 21 and 25, respectively, of this report.

The District maintains individual governmental funds in accordance with the *Financial*

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

The basic governmental fund financial statements can be found on pages 19 and 23 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The school district's fiduciary activities are presented in a separate Statements of Fiduciary Assets and Liabilities on page 26.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-44 of this report.

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund. This required supplementary information can be found on pages 45-47 of this report.

Additionally, a schedule of expenditures of federal awards, required by OMB Cir. A-133 and a schedule of instructional, administrative, and other expenditures for governmental funds can be found on pages 49 and 50 of this report.

In addition a Statement of Revenues, Expenditures, and Changes in Fund Balance - Last Four Years is presented for the General Fund and All Governmental Funds on pages 52 and 53 of this report.

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 \$1,429,788 as of June 30, 2008.

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

	Net Assets		Percentage Change
	June 30, 2008	June 30, 2007	
Current assets	\$ 2,082,063	2,342,312	-11%
Capital assets, net	2,088,466	2,028,188	3%
Total assets	\$ 4,170,529	4,370,500	-5%
Current liabilities	739,630	685,982	8%
Long-term debt	2,001,111	2,101,074	-5%
Total liabilities	2,740,741	2,787,056	-2%
Net assets:			
Invested in capital assets, net of related debt	159,466	(3,812)	4283%
Restricted	1,053,544	975,780	8%
Unrestricted	216,778	611,476	-65%
Total net assets	\$ 1,429,788	1,583,444	-10%

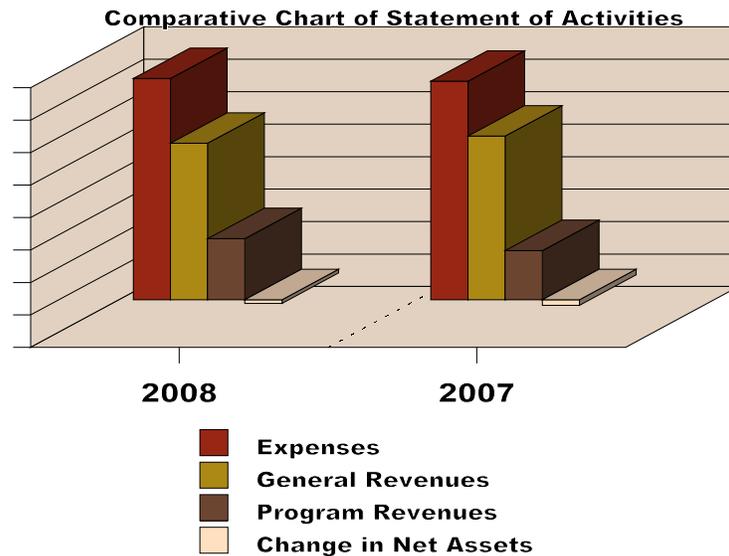
The following are significant current year transactions that have had an impact on the Statement of Net Assets.

- The principal retirement of \$208,000 of long-term debt.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2008 were \$13,398,828. The total cost of all programs and services was \$13,630,183. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2008 and 2007.

	For the year Ended June 30, 2008	For the year Ended June 30, 2007	Percentage Change
Revenues:			
Program revenues:			
Charges for services	\$ 185,459	100,656	84%
Operating grants and contributions	3,518,562	2,924,826	20%
Capital grants and contributions	56,014		
Total program revenues	3,760,035	3,025,482	24%
General Revenues:			
Property taxes	1,814,066	1,952,584	-7%
Grants and contributions not restricted	7,376,928	8,084,020	-9%
Unrestricted investment earnings	13,203	10,206	29%

Sixteenth section sources	384,371	101,954	277%
Other	<u>50,225</u>	<u>(67,076)</u>	<u>175%</u>
Total general revenues	<u>9,638,793</u>	<u>10,081,688</u>	<u>-4%</u>
Total revenues	<u>13,398,828</u>	<u>13,107,170</u>	<u>2%</u>
Expenses:			
Instruction	7,238,433	6,704,936	8%
Support services	5,058,954	5,516,928	-8%
Non-instructional	1,226,268	1,128,644	9%
Sixteenth section sources	8,371		
Interest on long-term debt	<u>98,157</u>	<u>104,310</u>	<u>-6%</u>
Total expenses	13,630,183	13,454,818	1%
Increase (decrease) in net assets	(231,355)	(347,648)	-33%
Net Assets, July 1	1,583,444	1,931,092	-18%
Prior Period Adjustment	<u>77,699</u>		
Net Assets, Restated	<u>1,661,143</u>	<u>1,931,092</u>	<u>-14%</u>
Net Assets, June 30	\$ <u>1,429,788</u>	<u>1,583,444</u>	<u>-10%</u>

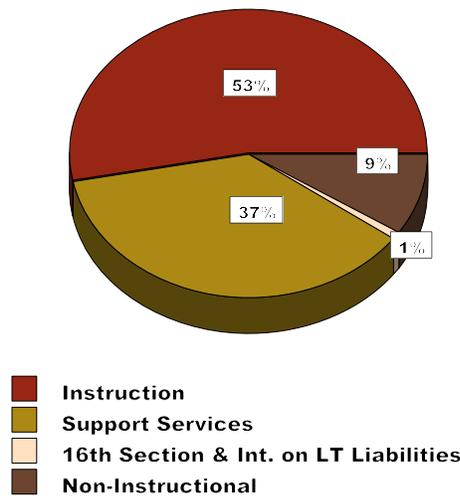


Governmental activities. The following table presents the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section and interest on long-term debt. The table also shows each function's net cost (total cost less charges for services generated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

these functions.

	2008		2007	
	Total Expenses	Net (Expense) Revenue	Total Expenses	Net (Expense) Revenue
Instruction	\$ 7,238,433	(6,032,403)	6,704,936	(4,786,130)
Support services	5,058,954	(3,631,440)	5,516,928	(5,393,600)
Non-instructional	1,226,268	(139,179)	1,128,644	(145,296)
Sixteenth section	8,371	31,031		
Interest on long-term liabilities	98,157	(98,157)	104,310	(104,310)
Total Expenses	\$ 13,630,183	(9,870,148)	13,454,818	(10,429,336)

Chart of Expenses as per Statement of Activities



- The net cost of governmental activities for fiscal year 2008 (\$9,870,148) was financed by general revenue, which is made up of primarily property taxes \$1,814,066, investment earnings \$13,203, sixteenth section sources \$384,371 and state revenues \$7,296,681.

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 \$1,354,349, a decrease of \$316,888 due primarily to repayment of debt. The decrease includes the reserve for inventory of \$7,578. \$395,733 or 29% 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 \$958,616 or 71% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was \$370,056. The fund balance of the Building Project Fund showed an increase of \$106,149. The fund balance of Other Governmental Funds showed a decrease of \$52,981 including the decrease in reserve for inventory of \$7,578.

BUDGETARY HIGHLIGHTS

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

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2008, the District's total capital assets were \$4,597,319 including land, school buildings, buses, other school vehicles, and furniture and equipment. This amount represents a decrease of \$82,164 from the previous year. Total accumulated depreciation as of June 30, 2008 was \$2,508,853 and total depreciation expense for the year was \$171,365, resulting in total net capital assets of \$2,088,466.

	<u>Capital Assets, Net of Depreciation</u>		<u>Percentage</u>
	<u>2008</u>	<u>2007</u>	<u>Change</u>
Land	\$ 76,652	76,652	0%
Buildings	592,653	102,955	476%
Building improvements	828,418	386,675	114%
Improvements other than buildings	156,987	47,348	232%
Mobile equipment	373,730	861,074	-57%
Furniture and equipment	52,477	544,282	-90%
Leased property under capital leases	7,549	9,202	-18%
Total	\$ 2,088,466	2,028,188	3%

Debt Administration. At June 30, 2008, the District had \$2,001,111 in long-term debt outstanding, of which \$250,000 is due within one year.

	Outstanding Debt		Percentage
	2008	2007	Change
Certificates of Participation Payable	\$ 1,071,000	1,214,000	-12%
Three Mill Note Payable	753,000	818,000	-8%
Shortfall Note Payable	105,000		
Compensated Absences	72,111	69,074	4%
Total	\$ 2,001,111	2,101,074	-5%

Additional information of the District's long-term debt can be found in Note 5 on page 38 of this report.

CURRENT ISSUES

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

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

Student enrollment in the District declined by 6% to 1,386 students. The budget for the next fiscal year has taken into account this reduction in both funding and staffing needs.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact Myron Thompson, Business Manager, at the Superintendent's Office of the Quitman County Courthouse Annex, Marks, MS 38646, telephone number (662)326-5451.

FINANCIAL STATEMENTS

QUITMAN COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2008

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 1,758,104
Cash with fiscal agents	270
Due from other governments	312,782
Inventories	10,907
Capital assets, non-depreciable:	
Construction in progress	76,652
Capital assets, net of accumulated depreciation:	
Buildings	592,653
Building improvements	828,418
Improvements other than buildings	156,987
Mobile equipment	373,730
Furniture and equipment	52,477
Leased property under capital leases	7,549
Total Assets	<u>4,170,529</u>
Liabilities	
Accounts payable and accrued liabilities	671,390
Unearned revenue	56,325
Interest payable on long-term liabilities	11,915
Long-term liabilities (due within one year):	
Capital related liabilities	250,000
Long-term liabilities (due beyond one year)	
Capital related liabilities	1,679,000
Non-capital related liabilities	72,111
Total Liabilities	<u>2,740,741</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	159,466
Restricted Net Assets:	
Expendable:	
School-based activities	105,835
Capital improvements	849,937
Forestry improvements	58,334
Unemployment benefits	39,438
Unrestricted	216,778
Total Net Assets	<u>\$ 1,429,788</u>

The accompanying notes are an integral part of this statement.

QUITMAN COUNTY SCHOOL DISTRICT
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2008

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
Governmental Activities:				Governmental Activities	
Instruction	7,238,433	62,243	1,087,773	56,014	(6,032,403)
Support services	5,058,954	--	1,427,514	--	(3,631,440)
Noninstructional services	1,226,268	83,814	1,003,275	--	(139,179)
Sixteenth section	8,371	39,402	--	--	31,031
Interest on long-term liabilities	98,157	--	--	--	(98,157)
Total Governmental Activities	<u>\$ 13,630,183</u>	<u>\$ 185,459</u>	<u>\$ 3,518,562</u>	<u>\$ 56,014</u>	<u>(9,870,148)</u>
General Revenues:					
Taxes:					
General purpose levies					1,736,838
Debt purpose levies					77,228
Unrestricted grants and contributions:					
State					7,296,681
Federal					80,247
Unrestricted investment earnings					13,203
Sixteenth section sources					384,371
Other					50,225
Total general revenues					<u>9,638,793</u>
Change in Net Assets					<u>(231,355)</u>
Net Assets - Beginning					1,583,444
Prior Period Adjustment					77,699
Net Assets - Restated					1,661,143
Net Assets - Ending					<u>\$ 1,429,788</u>

The accompanying notes are an integral part of this statement.

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QUITMAN COUNTY SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2008

	General Fund	Building Project Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 587,440	\$ 849,937	\$ 320,728	\$ 1,758,105
Cash with fiscal agents	--	--	270	270
Due from other governments	99,108	--	213,674	312,782
Due from other funds	133,436	--	35,627	169,063
Inventories	--	--	10,907	10,907
Total Assets	\$ 819,984	\$ 849,937	\$ 581,206	\$ 2,251,127
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 509,490	\$ --	\$ 161,900	\$ 671,390
Due to other funds	--	--	169,063	169,063
Unearned revenue	--	--	56,325	56,325
Total Liabilities	509,490	--	387,288	896,778
Fund balances:				
Reserved for:				
Inventory	--	--	10,907	10,907
Forestry improvements	--	--	58,334	58,334
Unemployment benefits	--	--	39,438	39,438
Capital projects funds	--	849,937	--	849,937
Unreserved, undesignated, reported in:				
General fund	310,494	--	--	310,494
Special Revenue funds	--	--	94,929	94,929
Debt service funds	--	--	(9,690)	(9,690)
Total Fund Balances	310,494	849,937	193,918	1,354,349
Total Liabilities and Fund Balances	\$ 819,984	\$ 849,937	\$ 581,206	\$ 2,251,127

The accompanying notes are an integral part of this statement.

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QUITMAN COUNTY SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2008

Total fund balances - governmental funds balance sheet	\$ 1,354,349
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not reported in the funds.	2,088,466
Liabilities due in one year are not recognized in the funds	(250,000)
Payables for bond interest which are not due in the current period are not reported in the funds.	(11,915)
Payables for notes which are not due in the current period are not reported in the funds.	(757,000)
Payables for compensated absences not due in the current period are not reported in the funds.	(72,111)
Other long-term liabilities not due and payable in the current period are not reported in the funds.	(922,000)
Rounding difference	(1)
	<u> </u>
Net assets of governmental activities - statement of net assets	<u>\$ 1,429,788</u>

The accompanying notes are an integral part of this statement.

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QUITMAN COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCES - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2008

	General Fund	Building Project Fund	Other Governmental Funds	Total Governmental Funds
Revenue:				
Local sources	\$ 1,854,903	\$ 5,336	\$ 158,162	\$ 2,018,401
State sources	7,205,393	--	555,131	7,760,524
Federal sources	80,247	--	3,110,733	3,190,980
Sixteenth section sources	--	--	423,773	423,773
Total revenues	<u>9,140,543</u>	<u>5,336</u>	<u>4,247,799</u>	<u>13,393,678</u>
Expenditures:				
Instruction	5,802,882	--	1,352,294	7,155,176
Support services	3,421,253	8,255	1,595,172	5,024,680
Noninstructional services	67,337	--	1,134,217	1,201,554
Sixteenth section	--	--	8,371	8,371
Facilities acquisition and construction	--	114,208	--	114,208
Debt service:				
Principal	--	--	208,000	208,000
Interest	--	--	101,149	101,149
Total expenditures	<u>9,291,472</u>	<u>122,463</u>	<u>4,399,203</u>	<u>13,813,138</u>
Excess (deficiency) of revenues over expenditures	(150,929)	(117,127)	(151,404)	(419,460)
Other financing sources (uses):				
Proceeds of loans	103,496	--	1,504	105,000
Sale of transportation equipment	150	--	--	150
Transfers in	--	223,276	603,129	826,405
Other financing sources	--	--	5,000	5,000
Transfers out	(322,773)	--	(503,632)	(826,405)
Total other financing sources (uses)	<u>(219,127)</u>	<u>223,276</u>	<u>106,001</u>	<u>110,150</u>
Net change in fund balance	(370,056)	106,149	(45,403)	(309,310)
Fund Balances:				
July 1, 2007	680,550	743,788	246,899	1,671,237
Increase (decrease) in reserve for inventory	--	--	(7,578)	(7,578)
June 30, 2008	<u>\$ 310,494</u>	<u>\$ 849,937</u>	<u>\$ 193,918</u>	<u>\$ 1,354,349</u>

The accompanying notes are an integral part of this statement.

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QUITMAN COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

Net change in fund balances - total governmental funds	\$ (309,310)
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	154,017
The depreciation of capital assets used in governmental activities is not reported in the funds.	(171,365)
Trade-in or disposal of capital assets decrease net assets in the SOA but not in the funds.	(73)
Repayment of note principal is an expenditure in the funds but is not an expense in the SOA.	208,000
(Increase) decrease in accrued interest from beginning of period to end of period	2,992
Change in inventory is an adjustment to fund balance in the funds but affects expense in the SOA.	(7,578)
Compensated absences are reported as amount earned in SOA but as amount paid in the funds.	(3,037)
Proceeds of notes do not provide revenue in SOA, but are reported as current resources in the funds.	(105,000)
Rounding difference	<u>(1)</u>
Change in net assets of governmental activities - statement of activities	<u>\$ (231,355)</u>

The accompanying notes are an integral part of this statement.

QUITMAN COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2008

	<u>Agency Funds</u>
ASSETS	
Assets:	
Cash and other deposits	\$ 36,792
Total Assets	<u>\$ 36,792</u>
LIABILITIES	
Liabilities:	
Due to student clubs	\$ 36,792
Total Liabilities	<u>\$ 36,792</u>

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements

For the year ended
June 30, 2008

Quitman County School District

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

(1) Summary of Significant Accounting Policies.

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

A. Financial Reporting Entity.

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.

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

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 a 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.

B. Basis of Presentation.

Government-wide Financial Statements:

Quitman County School District

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

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

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

1. Invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.
2. *Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
3. *Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

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

Fund Financial Statements:

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

The school district reports the following major governmental funds:

General Fund - This is the school district's primary operating fund. All general tax

Quitman County School District

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

revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

Building Project Fund - This fund is used to account for new construction projects.

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

The District's fiduciary funds include the Agency Funds, which do not measure results of operations but rather report resources held by the district in a custodial capacity.

GOVERNMENTAL FUND TYPES

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 Project 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.

C. Measurement Focus and Basis of Accounting.

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting as are the Fiduciary Fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues

Quitman County School District

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

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

Federal grants and assistance awards made on the basis of entitlement periods are recorded as receivables and revenues when entitlement occurs. Federal reimbursement type grants are recorded as revenues when the related expenditures are recognized. Use of grant resources is conditioned upon compliance with terms of the grant agreements and applicable federal regulations, which include subjecting grants to financial and compliance audits.

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

Ad valorem property taxes are levied by the governing authorities 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.

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

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

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

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

Quitman County School District

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

of Mississippi.

D. Account Classifications.

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

E. Encumbrances.

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

F. Assets, liabilities, and net assets or equity.

1. Cash, Cash equivalents and Investments

Cash and cash equivalents.

The district's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The school district deposits excess funds in the financial institutions selected by the school board. State statutes specify how these depositories are to be selected.

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 type described in Sections 27-105-33, Miss. Code Ann. (1972), or in any other type investment in which any other agency, instrumentality or subdivision of the State of Mississippi may invest, except that 100% of said funds are authorized to be so invested.

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

Investments for the district are reported at fair market value.

2. Receivables and payables

Quitman County School District

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

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

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

3. Due from Other Governments

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

4. Inventories and Prepaid Items

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

5. Restricted Assets

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

6. Capital Assets

Capital assets, which include property, plant, furniture and equipment, are reported in the applicable governmental activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost or estimated historical cost based on appraisals or deflated current replacement

Quitman County School District

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

cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the thresholds in the following table and estimated useful lives in excess of two years.

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

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

	Capitalization <u>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 amounts will correspond with the amounts for the asset classifications, as listed. See Note (4) for details.

7. Compensated Absences

Employees of the school district accumulate sick leave at a minimum amount as required by state law. A greater amount may be provided by school district policy provided that it does not exceed the provisions for leave as provided in Sections 25-3-93 and 25-3-95. Some employees are allowed personal and/or vacation leave in accordance with school district policy. The district pays for unused leave for employees as required to do so by Section 37-7-307(5), Miss. Code Ann. (1972).

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

Quitman County School District

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

payable from expendable available financial resources only if the payable has matured, for example, an employee retires.

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

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

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures. See Note 5 for details.

9. Fund equity.

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

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

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

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

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

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

Quitman County School District

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

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

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

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

(2) Cash and Cash equivalents, and Cash with Fiscal Agents.

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

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

Cash and Cash Equivalents.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$1,758,105 and \$36,792. The bank balance was \$3,394,204.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of a financial institutions failure, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2008, none of the district's bank balance of \$3,394,204 was exposed to custodial credit risk.

Quitman County School District

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

Cash with Fiscal Agents

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$270.

(3) Interfund Receivables, Payables and Transfers.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds.

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 133,436
Other Governmental Funds		<u>35,627</u>
Total		\$ <u><u>169,063</u></u>

Interfund loans exist primarily to avoid a deficit cash balance in federal funds. All balances are expected to be repaid within one year from the date of the financial statements.

B. Interfund Transfers.

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 322,773
Other Governmental Funds	Building Project Fund	223,276
	Other Governmental Funds	<u>280,356</u>
Total		\$ <u><u>826,405</u></u>

The purpose of the transfers was to provide funds for general operating activities. All transfers were routine and consistent with the fund making the transfer.

(4) Capital Assets.

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

	Balance 7-1-2007	Additions	Retirements	Adjustments	Balance 6-30-2008
<u>Non-depreciable capital assets:</u>					
Land	\$ 76,652				76,652
Total non-depreciable capital assets	<u>76,652</u>	0	0	0	<u>76,652</u>
<u>Depreciable capital assets:</u>					
Buildings	1,411,079				1,411,079
Building improvements	1,388,212				1,388,212

Quitman County School District

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

	Balance 7-1-2007	Additions	Retirements	Adjustments	Balance 6-30-2008
Improvements other than buildings	49,321	114,208			163,529
Mobile equipment	1,173,097			41,670	1,214,767
Furniture and equipment	568,010	39,809	7,350	(270,501)	329,968
Leased property under capital leases	13,112				13,112
Total depreciable capital assets	4,602,831	154,017	7,350	(228,831)	4,520,667
<u>Less accumulated depreciation for:</u>					
Buildings	1,308,124	30,887		(520,585)	818,426
Building improvements	1,001,537	55,529		(497,272)	559,794
Improvements other than buildings	1,973	6,542		(1,973)	6,542
Mobile equipment	312,023	59,138		469,876	841,037
Furniture and equipment	23,728	17,415	7,277	243,625	277,491
Leased property under capital leases	3,910	1,854		(201)	5,563
Total accumulated depreciation	2,651,295	171,365	7,277	(306,530)	2,508,853
Total depreciable capital assets, net	1,951,536	(17,348)	73	77,699	2,011,814
Governmental activities capital assets, net	\$ <u>2,028,188</u>	<u>(17,348)</u>	<u>73</u>	<u>77,699</u>	<u>2,088,466</u>

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$119,955
Support services	34,273
Non-instructional	17,137
Total depreciation expense	<u>\$171,365</u>

Adjustments to capital assets were made to accurately present capital assets.

(5) Long-term Liabilities.

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

	Balance 7-1-2007	Additions	Reductions	Balance 6-30-2008	Amounts due within one year
A. Certificate of participation payable	\$ 1,214,000		143,000	1,071,000	149,000
B. Three mill notes payable	818,000		65,000	753,000	68,000
C. Shortfall notes payable	0	105,000		105,000	33,000
D. Compensated absences payable	69,074	3,037		72,111	
Total	\$ 2,101,074	108,037	208,000	2,001,111	250,000

Quitman County School District

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

A. Certificates of participation payable.

As more fully explained in Note 9, certificates of participation have been issued by the school district. Certificates of participation currently outstanding are as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Certificates of Participation, Series 2004	4.45%	07-02-04	03-01-15	\$ 1,630,000	1,071,000
Total				\$ <u>1,630,000</u>	<u>1,071,000</u>

Details of the district's June 30, 2008 certificates of participation are as follows:

1. Certificates of participation issued 07/02/04

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 149,000	47,660	196,660
2010	156,000	41,030	197,030
2011	163,000	34,086	197,086
2012	170,000	26,834	196,834
2013	177,000	15,330	192,330
2014- 2015	<u>256,000</u>	<u>8,856</u>	<u>264,856</u>
Total	\$ <u>1,071,000</u>	<u>173,796</u>	<u>1,244,796</u>

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

B. Three Mill Notes Payable.

Debt currently outstanding is as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Three Mill Notes Payable Series 2006	4.11%	9/15/06	6/15/16	\$ 950,000	753,000
Total				\$ <u>950,000</u>	<u>753,000</u>

Details of the district's June 30, 2008 three mill notes payable are as follows:

Quitman County School District

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

2. Three Mill Notes Payable issued 9/15/06

Year Ending June 30	Principal	Interest	Total
2009	\$ 68,000	30,948	98,948
2010	71,000	28,154	99,154
2011	74,000	23,715	97,715
2012	77,000	20,612	97,612
2013	80,000	17,385	97,385
2014-2016	<u>383,000</u>	<u>34,319</u>	<u>417,319</u>
Total	<u>\$ 753,000</u>	<u>155,133</u>	<u>908,133</u>

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

C. Shortfall notes payable.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Shortfall tax note 2008	5.13%	12/18/07	12/18/10	\$ 105,000	105,000
Total				<u>\$ 105,000</u>	<u>105,000</u>

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

Year Ending June 30	Principal	Interest	Total
2009	\$ 33,000	5,381	38,381
2010	35,000	3,690	38,690
2011	<u>37,000</u>	<u>1,896</u>	<u>38,896</u>
Total	<u>\$ 105,000</u>	<u>10,967</u>	<u>115,967</u>

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

D. Compensated Absences.

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

Quitman County School District

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

(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 rate for fiscal year ended June 30, 2008 was 11.85% of the annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2008, 2007, and 2006 were \$870,862, \$863,400 and \$756,928, respectively, which equaled the required contributions for each year.

(7) Sixteenth Section Lands.

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

Year Ending		Amount
June 30		
2009	\$	179,397
2010		88,697
2011		86,197
Total	\$	<u>354,291</u>

(8) Risk Management.

The school district is exposed to various risks of loss related to torts; theft of, damage to, and

Quitman County School District

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

destruction of assets; errors and omissions; injuries to employees; and natural disasters. Except as discussed 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 95 school districts and one community college and covers risks of loss arising from injuries to the member's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Wells Fargo in Portland, Oregon. The funds in the trust account are used to pay any claim up to \$750,000. For a claim exceeding \$750,000, MSBAWCT has insurance which will pay the excess to the statutory amount required by the Mississippi Workers Compensation Commission Act. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies.

(9) Trust Certificates.

A trust agreement dated July 2, 2004, was executed by and between the school district and Hancock Bank, as trustees.

The trust agreement authorized the refunding of trust certificates in the original principal amount of \$1,630,000. The project is leased to the 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 district upon complete retirement of the trust certificates. The 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 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

Quitman County School District

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

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.

(10) 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, Miss. Code Ann. (1972), and approved by the Mississippi Department of Education. The consortium includes: Coahoma County School District, Coahoma Agricultural High School, Drew School District, East Tallahatchie School District, Mound Bayou Public School District, North Bolivar School District, Quitman County School District, Sunflower County School District and West Tallahatchie School District.

Section 37-13-92, 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 district designated by the agreement as the lead district will serve as the governing board of the alternative school program. Transportation for students is the responsibility of the individual school district.

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.

(11) Twenty-first Century Community Learning Center Consortia

North Delta Twenty-first Century Community Learning Center Consortium.

The 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., Batesville Mississippi Police Department, Coahoma Community College, Mississippi State Cooperative Extension Service, Delta Rural Systems Initiative, Northwest Mississippi Public Health District Number 1, Northwest Mississippi Community College, North Delta Mississippi Enterprise Community, North Panola School District, Quitman County Development Organization, University of Mississippi Institute of Continuing Studies, and West Tallahatchie School District.

(12) Delta Horizon Twenty-first Century Community Learning Center Consortium.

The district entered into a Community Learning Center agreement dated March 7, 2000, 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

Quitman County School District

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

approved by the Mississippi Department of Education. The consortium includes the: Cleveland Alternative Center, East Side High School, Garrett Hall Alternative School, Gentry High School, Greenville Public School District, Indianola Junior High School, Manning Elementary School, O'Bannon High School, Quitman County Middle School, R.H. Bearden Elementary School, Riverside High School, Simmons High School, Webb Elementary School.

There was no financial activity in the North Delta Twenty-first Century Community Learning Center Consortium fund during the year. The fund reported \$10,384 balance at year end.

(13) Prior Period Adjustments/Exhibits.

A summary of significant fund equity adjustments is as follows:

Exhibit B - Statement of Activities

<u>Explanation(s)</u>	<u>Amount</u>
Adjustments were made to accurately present capital assets.	\$ <u>77,699</u>
Total	\$ <u><u>77,699</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

QUITMAN COUNTY SCHOOL DISTRICT

Exhibit 1

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

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 1,983,450	1,891,500	1,854,903	(91,950)	(36,597)
State sources	7,230,777	7,197,144	7,205,393	(33,633)	8,249
Federal sources	106,000	81,124	80,247	(24,876)	(877)
Total Revenues	<u>9,320,227</u>	<u>9,169,768</u>	<u>9,140,543</u>	<u>(150,459)</u>	<u>(29,225)</u>
Expenditures:					
Instruction	5,648,340	5,819,763	5,802,882	(171,423)	16,881
Support services	3,186,476	3,419,153	3,421,253	(232,677)	(2,100)
Noninstructional services	80,428	67,336	67,337	13,092	(1)
Sixteenth Section	200			200	0
Total Expenditures	<u>8,915,444</u>	<u>9,306,252</u>	<u>9,291,472</u>	<u>(390,808)</u>	<u>14,780</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>404,783</u>	<u>(136,484)</u>	<u>(150,929)</u>	<u>(541,267)</u>	<u>(14,445)</u>
Other Financing Sources (Uses):					
Proceeds of Loans		103,496	103,496	103,496	0
Sale of Transportation Equipment	1,000	150	150	(850)	0
Indirect Cost	82,917			(82,917)	0
Transfers In	212,900	424,014		211,114	(424,014)
Transfers Out	(585,600)	(755,888)	(322,773)	(170,288)	433,115
Total Other Financing Sources (Uses)	<u>(288,783)</u>	<u>(228,228)</u>	<u>(219,127)</u>	<u>60,555</u>	<u>9,101</u>
Net Change in Fund Balances	<u>116,000</u>	<u>(364,712)</u>	<u>(370,056)</u>	<u>(480,712)</u>	<u>(5,344)</u>
Fund Balances:					
July 1, 2007	757,632	695,331	680,550	(62,301)	(14,781)
Prior period adjustments		(63,353)		(63,353)	63,353
July 1, 2007, as restated	<u>757,632</u>	<u>631,978</u>	<u>680,550</u>	<u>(125,654)</u>	<u>48,572</u>
June 30, 2008	<u>\$ 873,632</u>	<u>267,266</u>	<u>310,494</u>	<u>(606,366)</u>	<u>43,228</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, 2008

Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(2) Budget Amendments and Revisions.

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

SUPPLEMENTAL INFORMATION

Quitman County School District
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2008

Schedule 1

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through the Mississippi Department of Education:		
Child Nutrition Cluster:		
School Breakfast Program	10.553	272,371
National School Lunch Program	10.555	591,448
Summer Food Program	10.559	15,688
Total child nutrition cluster		879,507
Total passed-through the MDE		879,507
Total U.S. Department of Agriculture		879,507
<u>Federal Communications Commission</u>		
Administered through Universal Service Administrative Company:		
The school and libraries program of the Universal Service Fund	32.xxx	80,247
Total Federal Communication Commission		80,247
Passed-through the Mississippi Department of Education:		
Title I Grants to Local Educational Agencies	84.010	1,031,944
Career and Technical Education - Basic Grants to States	84.048	35,808
Safe and Drug Free Schools and Communities - State Grants	84.186	17,530
Fund for the improvement of education	84.215	239,559
Twenty-first Century Community Learning Center	84.287	67,663
State Grants for Innovative Programs	84.298	5,625
Education Technology State Grants	84.318	35,599
Rural Education	84.358	74,369
Improving teacher quality - State Grants	84.367	324,748
Grants for State Assessments and Related Activities	84.369	8,652
School Improvement Grants	84.377	93,671
Total		1,935,168
Special Education Cluster:		
Special Education - Grants to States	84.027	353,044
Special Education - Preschool Grants	84.173	7,185
Total special education cluster		360,229
Total passed-through the MDE		2,295,397
Total U.S. Department of Education		2,295,397
<u>Corporation for National and Community Service</u>		
Passed through Mississippi Department of Education:		
Learn and Serve America - School and Community based programs	94.004	9,604
Total Corporation for National and Community Service		9,604
Total for all Federal Awards		\$ 3,264,755

Notes to Schedule

1. This schedule was prepared using the same basis of accounting and 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, 2008

Schedule 2

Expenditures	Total	Instruction and Other Student Expenditures			Other
		Instructional	General Administration	School Administration	
Salaries and fringe benefits	\$ 10,269,309	7,520,616	656,090	624,252	1,468,351
Other	3,543,829	1,469,770	206,190	62,891	1,804,978
Total	\$ <u>13,813,138</u>	<u>8,990,386</u>	<u>862,280</u>	<u>687,143</u>	<u>3,273,329</u>

Total number of students * 1,386

Cost per student \$ 9,967 6,487 622 496 2,362

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

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

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

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

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

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

Note: includes 100 and 200 range object codes on the "Salaries and fringe benefits" line; all other expenditures on the "Other" line

OTHER SUPPLEMENTAL INFORMATION

QUITMAN COUNTY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

"UNAUDITED"

General Fund

Last Four Years

	2008	2007*	2006*	2005*
Revenues:				
Local sources	\$ 1,854,903	1,865,632	1,847,061	1,765,985
State sources	7,205,393	6,929,311	6,922,805	6,506,146
Federal sources	80,247	120,271	117,123	72,003
Total Revenues	9,140,543	8,915,214	8,886,989	8,344,134
Expenditures:				
Instruction	5,802,882	5,513,142	5,016,884	4,498,820
Support services	3,421,253	3,354,116	3,227,183	3,415,101
Noninstructional services	67,337	103,499	80,714	188,981
Sixteenth section			122	343
Total Expenditures	9,291,472	8,970,757	8,324,903	8,103,245
Excess (Deficiency) of Revenues over Expenditures	(150,929)	(55,543)	562,086	240,889
Other Financing Sources (Uses):				
Proceeds of loans	103,496			
Sale of transportation equipment	150	1,215		
Operating transfers in		493,944	453,771	723,033
Operating transfers out	(322,773)	(886,678)	(819,886)	(1,171,328)
Proceeds from debt refunding				24,461
Total Other Financing Sources (Uses)	(219,127)	(391,519)	(366,115)	(423,834)
Net Change in Fund Balances	(370,056)	(447,062)	195,971	(182,945)
Fund Balances:				
July 1,	680,550	1,127,612	931,641	1,114,586
June 30,	\$ 310,494	680,550	1,127,612	931,641

*SOURCE - PRIOR YEAR AUDIT REPORTS

QUITMAN COUNTY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

"UNAUDITED"

All Governmental Funds

Last Four Years

	2008	2007*	2006*	2005*
Revenues:				
Local sources	\$ 2,018,401	2,063,446	2,141,242	2,039,340
State sources	7,760,524	7,960,282	7,497,892	6,990,679
Federal sources	3,190,980	3,048,564	2,942,287	3,164,020
Sixteenth section sources	423,773	101,954	144,032	204,160
Total Revenues	13,393,678	13,174,246	12,725,453	12,398,199
Expenditures:				
Instruction	7,155,176	6,695,626	6,470,883	6,245,048
Support services	5,024,680	5,422,647	4,701,125	5,075,523
Noninstructional services	1,201,554	1,572,769	1,202,617	1,291,979
Sixteenth section	8,371		122	343
Facilities acquisition and construction	114,208			
Debt service:				
Principal	208,000	269,000	200,323	1,961,954
Interest	101,149	89,403	69,808	83,742
Other		6,679	4,696	55,266
Total Expenditures	13,813,138	14,056,124	12,649,574	14,713,855
Excess (Deficiency) of Revenues over Expenditures	(419,460)	(881,878)	75,879	(2,315,656)
Other Financing Sources (Uses):				
Proceeds of general obligation bonds		950,000		
Proceeds of loans	105,000			
Sale of other property		1,215		
Sale of transportation equipment	150			
Operating transfers in	826,405	1,150,368	1,173,786	1,742,316
Other financing sources	5,000			
Operating transfers out	(826,405)	(1,150,368)	(1,173,786)	(1,742,316)
Proceeds from debt refunding				1,654,461
Total Other Financing Sources (Uses)	110,150	951,215	0	1,654,461
Net Change in Fund Balances	(309,310)	69,337	75,879	(661,195)
Fund Balances:				
July 1,	1,671,237	1,602,051	1,533,171	2,194,366
Prior period adjustments			(6,999)	
July 1, as restated	1,671,237	1,602,051	1,526,172	2,194,366
Increase (Decrease) in reserve for inventory	(7,578)	(151)		
June 30,	\$ 1,354,349	1,671,237	1,602,051	1,533,171

*SOURCE - PRIOR YEAR AUDIT REPORTS

INTERNAL CONTROL AND COMPLIANCE REPORTS

Fortenberry & Ballard, PC
Certified Public Accountants

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

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, 2008, which collectively comprise the Quitman County School District's basic financial statements and have issued our report thereon dated July 31, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, process, record, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2008-1 to be a significant deficiency in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance or other matter that we have reported to management of the school district in a separate letter dated July 31, 2009 which is included in this report.

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

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

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC
July 31, 2009

Certified Public Accountants

Fortenberry & Ballard, PC
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE 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, 2008. The Quitman County School District's major federal programs are identified in the summary of the auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contract 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 and 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 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, the 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, 2008.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we

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do not express an opinion on the effectiveness of the school district's internal control over compliance.

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

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. *A significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as Finding 2008-2 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as Finding 2008-2 to be a material weakness.

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

This report is intended solely for the information and use of the school board and management, others within the entity 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.

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
July 31, 2009

Certified Public Accountants

Fortenberry & Ballard, PC
Certified Public Accountants

**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, 2008, which collectively comprise Quitman County School District's basic financial statements and have issued our report thereon dated July 31, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed the following instance of noncompliance. The noncompliance is reported in Finding #1 below. The district reported \$5,422 of classroom supply funds carried over from previous years.

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

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

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

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

Finding #1

Section 37-61-33, Miss. Code Ann. (1972), requires that Mississippi Public School Districts allocate Education Enhancement Funds (EEF) for classroom supplies equally among all classroom teachers in the school district. Section 37-61-33, Miss. Code Ann. (1972), further defines “teacher” for this statute and specifically excludes all federally-funded teachers from being included in the allocation process. Quitman County School District allocated classroom supplies to two (2) teachers that were federally funded classroom teachers.

Recommendation:

The District should comply with Section 37-61-33 (3)(a)(iii), Miss Code Ann. (1972), which requires the district to allocate Education Enhancement Funds (EEF) classroom supply funds equally among all classroom teachers but to preclude allocation to federally-funded teachers and precludes the carrying over of the money without an approved spending plan.

Response:

The District will comply with Section 37-61-33, 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 finding in this report to insure that corrective action has been taken.

The Quitman County School District’s response to the finding included in this report was not audited and, accordingly, we express no opinion on it.

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

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
July 31, 2009

Certified Public Accountants

FINDINGS AND CORRECTIVE ACTION PLAN

Quitman County School District

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

Section 1: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

4. Type of auditor's report issued on compliance for major federal programs: Unqualified.
5. Internal control over major programs:
 - a. Material weakness(es) identified? No.
 - b. Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes
6. Any audit findings reported as required by Section ___.510(a) of OMB 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:
CFDA # 84.010
 - c. Special Education Cluster:
CFDA # 84.027
CFDA # 84.173
8. The dollar threshold used to distinguish between Type A and Type B programs:
\$300,000.
9. Auditee qualified as a low-risk auditee? Yes.

10. Prior fiscal year audit findings and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____315(b) of OMB Circular A-133? No.

Section 2: Findings Relating to the Financial Statements

The results of our tests disclosed the following finding related to the financial statements that is required to be reported by *Government Auditing Standards*.

Significant Deficiency

Finding 2008-1:

Sound internal control dictates that the individual responsible for recording transactions should not be the same individual responsible for reviewing and/or reconciling the related accounts. Another important aspect of the entity's internal control is the timely preparation of bank account reconciliations to the general ledger by fund. During our audit we noted that these reconciliations were not timely made. The cash balance in the general ledger did not tie to the bank statements when the reconciliations were performed. There were also handwritten checks found which violate the board's policy on checks. Control account reconciliation review should be performed by someone other than the person with reconciling functions. Proper independent oversight of these tasks is not being achieved. Also, failure to prepare monthly bank reconciliations timely and handwriting checks may result in errors or fraud occurring without being detected in a timely manner.

Recommendation:

Duties should be separated so that the Business Manager is not the only person involved in the bank account reconciliation process and the journal entry recording processes. Someone other than the Business Manager should be responsible for the initial preparation of the bank reconciliations and the recording of journal entries. We also recommend the district to prepare bank reconciliations to the general ledger monthly, and follow the board's policy of not writing handwritten checks.

Section 3: Findings and Questioned Costs for Federal Awards

The results of our tests disclosed the following finding and questioned costs related to the federal awards.

Significant Deficiency

Finding 2008-2:

Program: Special Education Cluster:

CFDA # 84.027

CFDA # 84.173

U. S. Department of Education; passed through the Mississippi Department of Education

Program: Title I - CFDA# 84.010

U. S. Department of Education; passed through the Mississippi Department of Education

Compliance Requirement: Cash Management

The district requested funds in excess of immediate need from the MS Department of Education. Federal cash management requirements allow draw down of funds only to cover immediate needs. At June 30, 2008, Title I Fund and Special Education has surplus of cash.

Questioned cost: None

Recommendation:

The district should comply with cash management requirements and draw down cash only for immediate cash needs.

Quitman County School District
P.O. Drawer E
Marks, MS 38646
Valmadge Towner - Superintendent
Myron Thompson - Business Manager

AUDITEE'S CORRECTIVE ACTION PLAN

As required by Section __.315(b) 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, 2008:

<u>Finding</u>	<u>Corrective Action Plan Details</u>
2008-1	<p>a. Name of Contact Person Responsible for Corrective Action:</p> <p>Name: Myron Thompson Title: Business Manager Phone number: 662-326-5451</p> <p>b. Corrective Action Planned:</p> <p>The district will perform monthly reconciliations of bank accounts to the general ledger by fund in order to effectively and timely account for any variances from the book balances, establish a separation of duties, and follow the board's policy of not writing handwritten checks.</p> <p>c. Anticipated Completion Date:</p> <p>June 30, 2009</p>
2008-2	<p>a. Name of Contact Person Responsible for Corrective Action:</p> <p>Name: Myron Thompson Title: Business Manager Phone number: 662-326-5451</p> <p>b. Corrective Action Planned:</p> <p>The district will implement procedures to insure cash management requirements and draw down of funds are only to cover immediate cash needs.</p> <p>c. Anticipated Completion Date:</p> <p>June 30, 2009</p>