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Amory Separate School District
Audited Financial Statements
June 30, 2008

Fortenberry & Ballard, PC
Certified Public Accountants

**Amory Separate 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
Amory Separate School District

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Amory Separate School District as of and for the year ended June 30, 2008, which collectively comprise the Amory Separate School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Amory Separate School District's management. Our responsibility is to express opinions on these basic 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 Amory Separate School District at June 30, 2008, and the respective changes in financial position, thereof for the year 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 December 15, 2008, on our consideration of the Amory Separate 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 15 and the Budgetary Comparison Schedules and corresponding notes on pages 44 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, 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 Amory Separate 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, PC
December 15, 2008

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

Amory Separate School District
Management's Discussion and Analysis
For the Year Ended June 30, 2008

The discussion and analysis of Amory Separate 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 increased \$931,042, which represents a 29% increase from fiscal year 2007. This increase in net assets is primarily due to the following: 1) capital outlays during the fiscal year were not reported as expenses in the Statement of Activities but were capitalized on the Statement of Net Assets, and 2) repayment of debt principal during the fiscal year was not reported as an expense in the Statement of Activities but as a reduction of long-term liabilities on the Statement of Net Assets.
- General revenues account for \$11,764,889 in revenue, or 78% of all revenues. This amount was more than the general revenues reported for the year ended June 30, 2007 which consisted of \$10,763,025 or 77%. Program specific revenues in the form of charges for services and grants and contributions for this year accounted for \$3,311,856, or 22% of total revenues. In 2007, program revenues were \$3,141,648 or 23% of total revenues.
- The district had \$14,145,703 in expenses, an increase from \$12,949,966 in expenses for the prior year. Only \$3,311,856 of these expenses were offset by program specific charges for services, grants, and contributions. The general revenues of \$11,764,889 were adequate to provide for these programs.
- Among major funds, the General Fund had \$11,069,464 in revenues and \$10,665,379 in expenditures. In 2007 the General Fund had \$10,115,958 in revenues and \$9,652,241 in expenditures. The General Fund's fund balance increased \$361,477 from the prior year.
- Capital assets, net of accumulated depreciation, increased by \$140,493. One component of this increase was the addition of \$205,800 to buildings and the acquisition of mobile equipment for \$74,579.
- Long-term debt decreased by \$551,607.

OVERVIEW OF FINANCIAL STATEMENTS

Amory Separate School District
Management's Discussion and Analysis
For the Year Ended June 30, 2008

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 and other expenses on long-term liabilities.

The government-wide financial statements can be found on pages 17 and 18 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

Amory Separate School District
Management's Discussion and Analysis
For the Year Ended June 30, 2008

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 financial 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 22 and 26, respectively.

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 20 and 24 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 separate Statement of Fiduciary Assets and Liabilities on page 27.

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

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major special revenue fund. This required supplementary information can be found on pages 44-47 of this report.

Amory Separate School District
Management's Discussion and Analysis
For the Year Ended June 30, 2008

Additionally, a schedule of federal awards, required by OMB Cir. A-133 and a schedule of instructional, administrative, and other expenditures for governmental funds are provided on pages 49 and 50 of this report. A Statement of Revenue, Expenditures, and Changes in Fund Balances is presented for the General Fund and All Governmental Funds with comparative data for the last four years. These statements can be found on pages 52 and 53.

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 \$4,168,635 as of June 30, 2008.

Net assets are comprised of 1) net assets invested in capital assets, net of related debt, 2) restricted net assets, and 3) unrestricted net assets. \$1,330,472 of the District's net assets (32%) reflects its restricted net assets. The restricted net assets are expendable for school based activities, debt service, capital improvements and unemployment benefits. \$2,963,275 of the District's net assets (71%) reflects its unrestricted net assets.

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

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

	<u>2008</u>	<u>2007</u>	<u>Percentage Change</u>
Assets			
Current assets	\$ 4,694,088	\$ 4,431,992	6%
Capital assets, net	<u>3,038,281</u>	<u>2,897,788</u>	5%
Total assets	7,732,369	7,329,780	5%
Liabilities			
Current liabilities	317,904	294,750	8%
Long-term liabilities	<u>3,245,830</u>	<u>3,797,437</u>	-15%
Total liabilities	3,563,734	4,092,187	-13%
Net Assets:			
Invested in capital assets, net of related debt	(125,112)	(817,212)	85%
Restricted	1,330,472	1,458,787	-9%
Unrestricted	<u>2,963,275</u>	<u>2,596,018</u>	14%

Amory Separate School District
Management's Discussion and Analysis
For the Year Ended June 30, 2008

Total Net Assets	4,168,635	3,237,593	29%
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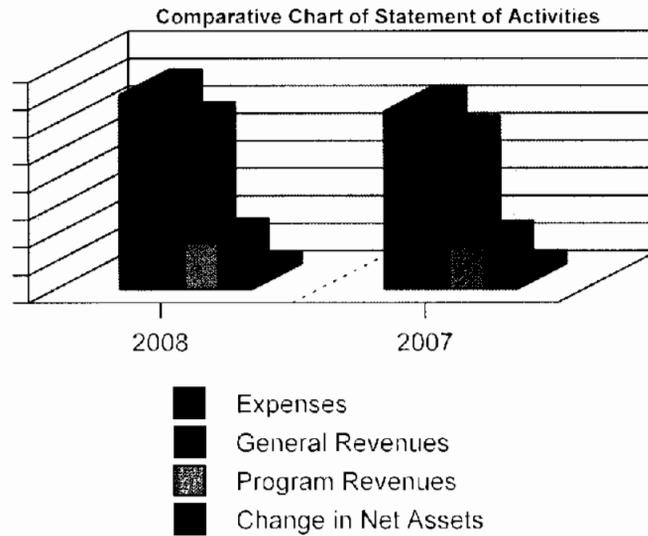
The following are significant current year transactions that have had an impact on the Statement of Net Assets.

- The principal retirement of \$560,000 of long-term debt.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2008 were \$15,076,745. The total cost of all programs and services was \$14,145,703. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2008, and comparative data for the fiscal year ended June 30, 2007.

	<u>2008</u>	<u>2007</u>	<u>Percentage Change</u>
Revenues			
<u>Program Revenues</u>			
Charges for services	\$ 832,666	801,465	4%
Operating grants and contributions	2,422,319	2,283,337	6%
Capital grants and contributions	<u>56,871</u>	<u>56,846</u>	0%
Total Program Revenues	3,311,856	3,141,648	5%
<u>General Revenues</u>			
Property taxes	2,131,485	2,056,254	4%
Unrestricted grants and contributions	9,506,116	8,560,928	11%
Unrestricted investment earnings	22,231	25,251	-12%
Sixteenth Section Sources	14,401	4,707	206%
Other	<u>90,656</u>	<u>115,885</u>	-22%
Total general revenues	<u>11,764,889</u>	<u>10,763,025</u>	9%
 Total Revenues	 <u>15,076,745</u>	 <u>13,904,673</u>	 8%
 Expenses:			
Instruction	8,132,804	7,883,315	3%
Support services	4,648,252	3,749,085	24%
Non-instructional	1,237,611	1,178,835	5%
Interest on long-term liabilities	<u>127,036</u>	<u>138,731</u>	-8%
Total Expenses	14,145,703	12,949,966	9%
 Increase (decrease) in net assets	 931,042	 954,707	 -2%
 Net Assets, July 1	 3,237,593	 2,282,886	 42%
Net Assets, June 30	<u>4,168,635</u>	<u>3,237,593</u>	29%

Amory Separate School District
Management's Discussion and Analysis
For the Year Ended June 30, 2008



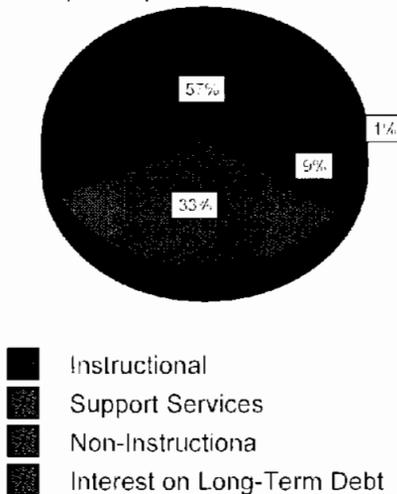
Governmental activities. The following table presents the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section and interest on long-term debt. The table also shows each function's net cost (total cost less charges for services generated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

	2008 Expenses	2007 Expenses	2008 Net (Expense) Revenue	2007 Net (Expense) Revenue
Instruction	\$ 8,132,804	7,883,315	(6,554,442)	(6,118,076)
Support services	4,648,252	3,749,085	(4,050,222)	(3,455,672)
Non-instructional	1,237,611	1,178,835	(102,147)	(95,839)
Interest on long-term liabilities	127,036	138,731	(127,036)	(138,731)
Total Expenses	\$ 14,145,703	12,949,966	(10,833,847)	(9,808,318)

Amory Separate School District
Management's Discussion and Analysis
For the Year Ended June 30, 2008

- The net cost of governmental activities for fiscal year 2008 (\$10,883,847) was financed by general revenue, which is made up of primarily property taxes of \$2,131,485 and state revenue of \$9,241,610.
- Investment earnings accounted for \$22,231 of funding.

Expenses per Statement of Activities



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 \$4,426,774, an increase of \$234,007. \$3,282,519 or 74% of the fund balance constitutes unreserved an undesignated fund balance, which is available for spending at the District's discretion. The portion of the fund balance reported in the Special Revenue Funds will be used

Amory Separate School District
Management's Discussion and Analysis
For the Year Ended June 30, 2008

for school based activities. The portion of the fund balance reported in the Capital Project Funds will be used for the renovation and construction of school facilities. The remaining fund balance of \$1,144,255 or 26% is reserved or designated to indicate that is not available for spending because it has already been committed. This portion of the fund balance is reserved for inventory, unemployment benefits, capital project purposes and debt service purposes.

The General Fund is the principal operating fund of the District. The net change in fund balance for the General Fund for the fiscal year was an increase of \$361,477. The net change in fund balance for the Other Governmental Funds for the fiscal year was a decrease of \$117,528. The fund balance of the 1994 GO Bond and Interest Fund decreased \$9,942.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget. Historical data, tentative allocations of state and federal funds, legislative mandates and anticipated needs are used to determine original budget amounts. Over the course of the year, the District revised the annual operating budget as changes occurred.

At the time the original budget was prepared only estimates were available for federal funding. Typically original budgets are prepared using prior year allocation as estimates. Once federal awards are known, budgets were amended to the actual grant award amount.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2008, the District's total capital assets were \$11,776,468, including land, school buildings, improvements, buses, other school vehicles, and furniture and equipment. This amount represents an increase of \$280,379 from the previous year. One major component of this increase was the addition of \$205,800 to buildings. Total depreciation expense for the year was \$139,886. Total accumulated depreciation as of June 30, 2008 was \$8,738,187, resulting in total net capital assets of \$3,038,281.

	<u>2008</u>	<u>2007</u>	<u>Percentage Change</u>
Land	\$ 64,885	64,885	0%
Buildings	2,694,749	2,548,918	6%
Improvements other than buildings	522	522	0%

Amory Separate School District
Management's Discussion and Analysis
For the Year Ended June 30, 2008

Mobile equipment	274,563	276,960	-1%
Furniture and equipment	<u>3,562</u>	<u>6,503</u>	-45%
Total	<u><u>3,038,281</u></u>	<u><u>2,897,788</u></u>	5%

Debt Administration. At June 30, 2008, the District had \$825,000 in general obligation bonds outstanding and \$2,420,830 other long-term debt outstanding, of which \$570,000 is due within one year.

	<u>2008</u>	<u>2007</u>	<u>Percentage Change</u>
General obligation bonds	\$ 825,000	1,225,000	-33%
Obligations under capital leases	2,330,000	2,490,000	-6%
Compensated absences	<u>90,830</u>	<u>82,437</u>	10%
Total	<u><u>3,245,830</u></u>	<u><u>3,797,437</u></u>	-15%

CURRENT ISSUES

The Amory Separate District is financially stable. The District is proud of its community support of the public schools. The District has committed itself to financial excellence for many years. In addition, the District's system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Amory Separate School District, PO Box 330, Amory, MS 38821.

FINANCIAL STATEMENTS

AMORY SEPARATE SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2008

	<u>Governmental Activities</u>
ASSETS	
Assets:	
<i>Cash and other deposits</i>	\$ 4,047,618
<i>Cash with fiscal agents</i>	114,880
<i>Due from other governments</i>	499,620
<i>Inventories</i>	31,970
<i>Capital Assets, non-depreciable:</i>	
<i>Land</i>	64,885
<i>Capital Assets, net of accumulated depreciation:</i>	
<i>Buildings</i>	2,694,749
<i>Improvements other than buildings</i>	522
<i>Mobile equipment</i>	274,563
<i>Furniture and equipment</i>	3,562
Total Assets	<u>7,772,969</u>
Liabilities	
<i>Accounts payable and accrued liabilities</i>	267,314
<i>Interest payable on long-term liabilities</i>	50,590
Long-term liabilities (due within one year):	
<i>Capital related liabilities</i>	570,000
Long-term liabilities (due beyond one year)	
<i>Capital related liabilities</i>	2,585,000
<i>Non-capital related liabilities</i>	90,830
Total Liabilities	<u>3,563,734</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	(116,719)
Restricted Net Assets:	
Expendable:	
School Based Activities	213,252
Debt Service	949,764
Capital Improvements	68,931
Unemployment Benefits	43,000
Unrestricted	3,010,407
Total Net Assets	<u>4,168,635</u>

The accompanying notes are an integral part of this statement.

AMORY SEPARATE SCHOOL DISTRICTSTATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

Functions/Programs	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions		
Governmental Activities:					
<i>Instruction</i>	8,132,804	325,712	1,195,779	56,871	(6,554,442)
<i>Support services</i>	4,648,252	--	598,030	--	(4,050,222)
<i>Noninstructional services</i>	1,237,611	506,954	628,510	--	(102,147)
<i>Interest on long-term liabilities</i>	127,036	--	--	--	(127,036)
Total Governmental Activities	<u>\$ 14,145,703</u>	<u>\$ 832,666</u>	<u>\$ 2,422,319</u>	<u>\$ 56,871</u>	<u>(10,833,847)</u>
General Revenues:					
Taxes:					
<i>General purpose levies</i>					2,131,485
Unrestricted grants and contributions:					
<i>State</i>					9,241,610
<i>Federal</i>					264,506
<i>Unrestricted investment earnings</i>					22,231
<i>Sixteenth section sources</i>					14,401
<i>Other</i>					90,656
Total general revenues					<u>11,764,889</u>
					931,042
					3,237,593
					<u>3,237,593</u>

The accompanying notes are an integral part of this statement.

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AMORY SEPARATE SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2008

	General Fund	Title I - A Basic Fund
ASSETS		
<i>Cash and cash equivalents</i>	\$ 3,036,822	\$ --
<i>Cash with fiscal agents</i>	--	--
<i>Due from other governments</i>	144,258	58,544
<i>Due from other funds</i>	126,119	--
<i>Inventories</i>	--	--
Total Assets	\$ 3,307,199	\$ 58,544
LIABILITIES AND FUND BALANCES		
Liabilities:		
<i>Accounts payable and accrued liabilities</i>	\$ 205,962	\$ 2,529
<i>Due to other funds</i>	--	56,015
Total Liabilities	205,962	58,544
Fund balances:		
Reserved for:		
<i>Inventory</i>	--	--
<i>Unemployment benefits</i>	--	--
<i>Capital projects funds</i>	--	--
<i>Debt service funds</i>	--	--
Unreserved, undesignated, reported in:		
<i>General fund</i>	3,101,237	--
<i>Special Revenue funds</i>	--	--
Total Fund Balances	3,101,237	--
Total Liabilities and Fund Balances	\$ 3,307,199	\$ 58,544

The accompanying notes are an integral part of this statement.

EXHIBIT C

EHA Part B Fund	1994 GO Bond & Interest Fund	Other Governmental Funds	Total Governmental Funds
\$ --	\$ 731,059	\$ 279,737	\$ 4,047,618
--	--	114,880	114,880
46,198	13,474	237,146	499,620
--	--	--	126,119
--	--	31,970	31,970
<u>\$ 46,198</u>	<u>\$ 744,533</u>	<u>\$ 503,793</u>	<u>\$ 4,820,207</u>
\$ 26,989	\$ --	\$ 31,834	\$ 267,314
19,209	--	50,895	126,119
<u>46,198</u>	<u>--</u>	<u>82,729</u>	<u>393,433</u>
--	--	31,970	31,970
--	--	43,000	43,000
--	--	68,931	68,931
--	744,533	255,821	1,000,354
--	--	--	3,101,237
--	--	181,282	181,282
--	744,533	581,004	4,426,774
<u>\$ 46,198</u>	<u>\$ 744,533</u>	<u>\$ 882,793</u>	<u>\$ 4,820,207</u>

AMORY SEPARATE 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	\$ 4,426,774
Amounts reported for governmental activities in the statement of net assets ("SNA") are different because:	
Capital assets used in governmental activities are not reported in the funds.	3,038,281
Liabilities due in one year are recognized in the SNA but not in the funds.	(570,000)
Payables for bond principal which are not due in the current period are not reported in the funds.	(2,585,000)
Payables for bond interest which are not due in the current period are not reported in the funds.	(50,590)
Payables for compensated absences not due in the current period are not reported in the funds.	<u>(90,830)</u>
Net assets of governmental activities - statement of net assets	<u>\$ 4,168,635</u>

The accompanying notes are an integral part of this statement.

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AMORY SEPARATE SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	General Fund	Title I - A Basic Fund
Revenue:		
<i>Local sources</i>	\$ 2,145,295	\$ --
<i>Intermediate sources</i>	--	--
<i>State sources</i>	8,659,105	--
<i>Federal sources</i>	265,064	417,045
<i>Sixteenth section sources</i>	--	--
Total revenues	<u>11,069,464</u>	<u>417,045</u>
Expenditures:		
Instruction	6,842,863	279,500
Support services	3,809,110	137,545
Noninstructional services	13,406	--
Facilities acquisition and construction	--	--
Debt service:		
<i>Principal</i>	--	--
<i>Interest</i>	--	--
Total expenditures	<u>10,665,379</u>	<u>417,045</u>
Excess (deficiency) of revenues (over) expenditures	404,085	--
Other financing sources (uses):		
Operating transfers in	--	--
Operating transfers out	(42,608)	--
Total other financing sources (uses)	<u>(42,608)</u>	<u>--</u>
Net change in fund balance	361,477	--
Fund Balances:		
July 1, 2007	2,739,760	--
Increase (decrease) in reserve for inventory	--	--
June 30, 2008	<u>\$ 3,101,237</u>	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

EXHIBIT D

EHA Part B Fund	1994 GO Bond & Interest Fund	Other Governmental Funds	Total Governmental Funds
\$ --	\$ 439,359	\$ 698,342	\$ 3,282,996
--	--	4,252	4,252
--	--	1,041,871	9,700,976
342,380	--	1,049,631	2,074,120
--	--	14,401	14,401
<u>342,380</u>	<u>439,359</u>	<u>2,808,497</u>	<u>15,076,745</u>
202,892	--	907,036	8,232,291
139,488	29,174	579,537	4,694,854
--	--	1,199,728	1,213,134
--	--	11,711	11,711
--	400,000	160,000	560,000
--	20,127	111,844	131,971
<u>342,380</u>	<u>449,301</u>	<u>2,969,856</u>	<u>14,843,961</u>
--	(9,942)	(161,359)	232,784
--	--	47,315	47,315
--	--	(4,707)	(47,315)
<u>--</u>	<u>--</u>	<u>42,608</u>	<u>--</u>
--	(9,942)	(118,751)	232,784
--	754,475	698,532	4,192,767
--	--	1,223	1,223
<u>\$ --</u>	<u>\$ 748,533</u>	<u>\$ 591,008</u>	<u>\$ 4,426,774</u>

AMORY SEPARATE 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	\$ 232,784
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	280,379
The depreciation of capital assets used in governmental activities is not reported in the funds.	(139,886)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	560,000
(Increase) decrease in accrued interest from beginning of period to end of period	4,935
Compensated absences are reported as amount earned in the SOA but as the amount paid in the funds.	(8,393)
Change in inventory is an adjustment to fund balance in the funds but affects expense in the SOA.	<u>1,223</u>
Change in net assets of governmental activities - statement of activities	<u>\$ 931,042</u>

The accompanying notes are an integral part of this statement.

AMORY SEPARATE SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2008

	<u>Agency Funds</u>
ASSETS	
Assets:	
<i>Cash and other deposits</i>	\$ 448,136
Total Assets	<u>448,136</u>
LIABILITIES	
Liabilities:	
<i>Accounts payable and accrued liabilities</i>	\$ 440,801
<i>Due to student clubs</i>	7,335
Total Liabilities	<u>448,136</u>

The accompanying notes are an integral part of this statement.

Amory Separate School District

Notes to the Financial Statements
June 30, 2008

Amory Separate School District

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

(1) Summary of Significant Accounting Policies.

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

A. Financial Reporting Entity.

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

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

B. Basis of Presentation.

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities report information on all of the non-fiduciary 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 non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Amory Separate School District

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

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

The school district reports the following major governmental funds:

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

Title I - A Basic Fund - This is the school district's federally funded program offering remedial mathematics, language arts, and reading instruction to eligible students under a school-wide structured project.

EHA Part B Fund - This fund accounts for the resources related to the education of children with disabilities.

Amory Separate School District

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

1994 GO Bond & Interest Fund - This fund is used to account for the servicing of debt service principal and interest expenditures associated with the general obligation bond.

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

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

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 result of operations.

C. Measurement Focus and Basis of Accounting.

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available.

Amory Separate School District

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

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

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

Amory Separate School District

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

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 month 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

Amory Separate School District

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

6. Capital Assets

Capital assets, which include property, plant, furniture and equipment, are reported in the applicable governmental activities columns in the

Amory Separate School District

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

government-wide Statement of Net Assets. Capital assets are recorded at historical cost or estimated historical cost based on appraisals or deflated current replacement cost. Donated capital assets are recorded at estimated fair market value at the end of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend assets 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 scale details those thresholds.

		Capitalization <u>Policy</u>	Estimated <u>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.

Principal fund is not available for use by the district except as provided for under state statute for loans from this account.

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).

Amory Separate School District

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

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

8. Long-term Liabilities, Deferred Debt 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 unemployment benefits - An account that represents a portion of the fund balance that is legally restricted for the payment of unemployment benefits.

Amory Separate School District

Notes to 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 Project Fund which was legally restricted and not available for spending for any other purpose than that for which it is restricted.

Unreserved, undesignated - they represent portions of fund equity that are not legally segregated for a specific future use and are available for current operations.

(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. Restrictions on deposits and investments are imposed by statutes as follows:

Deposits. The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the school 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.

The carrying amount of the district's deposits with financial institutions reported in governmental funds and fiduciary funds was \$4,047,618, and \$448,136, respectively. The carrying amount of deposits reported in the government wide statements was: cash and cash equivalents \$4,047,618. The bank balance was \$4,866,447.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi state Treasurer manages that risk on behalf of the district. Deposits above the FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State

Amory Separate School District

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

Treasurer on behalf of the district. As of June 30, 2008, none of the district's bank balance was exposed to custodial credit risk.

Cash with Fiscal Agents.

The carrying amount of the school district's was with fiscal agents held by financial institutions was \$114,880.

(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	Title I - A Basic Fund	\$ 56,015
	EHA Part B Fund	19,209
	Other governmental funds	<u>50,895</u>
Total		\$ <u><u>126,119</u></u>

The purpose of the Due From/To other funds balances was to remove negative cash balances from pooled bank accounts. All balances are expected to be repaid within one year from the date of the financial statements.

B. Interfund Transfers.

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Other governmental funds	General Fund	\$ 42,608
	Other governmental funds	<u>4,707</u>
Total		\$ <u><u>47,315</u></u>

Transfers were made for indirect cost transfers and budgetary allocations. All transfers were routine and consistent with the fund making the transfer.

(4) Capital Assets.

Amory Separate School District

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

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

	Balance 7-01-2007	Additions	Retirements	Completed Construction	Adjustments	Balance 6-30-2008
Non-depreciable capital assets:						
Land	\$ 64,885					64,885
Construction in progress						0
Total non-depreciable capital assets	64,885	0	0	0	0	64,885
Depreciable capital assets:						
Buildings	10,338,823	205,800				10,544,623
Improvements other than buildings	52,179					52,179
Mobile equipment	978,264	74,579				1,052,843
Furniture and equipment	61,938					61,938
Total depreciable capital assets	11,431,204	280,379	0	0	0	11,711,583
Less accumulated depreciation for:						
Buildings	7,789,905	59,969				7,849,874
Improvements other than buildings	51,657					51,657
Mobile equipment	701,304	76,976				778,280
Furniture and equipment	55,435	2,941				58,376
Total accumulated depreciation	8,598,301	139,886	0	0	0	8,738,187
Total depreciable capital assets, net	2,832,903	140,493	0	0	0	2,973,396
Governmental activities capital assets, net	\$ 2,897,788	140,493	0	0	0	3,038,281

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$ 97,920
Support Services	27,977
Non-instructional	<u>13,989</u>
Total depreciation expense	\$ <u>139,886</u>

(5) Long-term Liabilities.

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

Amory Separate School District

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

	Balance 7-1-2007	Additions	Reductions	Adjustments	Balance 6-30-2007	Amounts due within one year
A. General obligation bonds payable	\$ 1,225,000		400,000		825,000	405,000
B. Limited obligation bonds payable	2,490,000		160,000		2,330,000	165,000
C. Compensated absences payable	82,437	8,393			90,830	
Total	\$ 3,797,437	8,393	560,000	0	3,245,830	570,000

A. General Obligation Bonds Payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General obligation bonds, Refunding Series 2003	1.5-3.75%	03-01-03	09-01-09	\$ 2,635,000	825,000
Total				\$ 2,635,000	825,000

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

Year Ending June 30	Principal	Interest	Total
2009	\$ 405,000	13,080	418,080
2010	420,000	4,515	424,515
Total	\$ 825,000	17,595	842,595

The amount of bonded indebtedness that can be incurred by the school district is limited by state statute. Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in state statutes, have been met. As of June 30, 2008 the amount of outstanding bonded indebtedness was equal to 4% of property assessments as of October 31, 2007. This debt will be retired from the 1994 GO Bond & Interest fund.

B. Limited Obligation Bonds Payable.

Amory Separate School District

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

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State Aid Capital Ref. Bonds, Series 1998	4.4-6.25%	06/15/98	02/01/18	\$ 3,325,000	2,330,000

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

Year Ending June 30	Principal	Interest	Total
2009	\$ 165,000	104,001	269,001
2010	175,000	96,351	271,351
2011	185,000	88,251	273,251
2012	195,000	79,604	274,604
2013	205,000	70,301	275,301
2014 - 2018	1,405,000	195,485	1,600,485
Total	\$ 2,330,000	633,993	2,963,993

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

C. Compensated Absences.

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

(6) Defined Benefit Pension Plan.

Plan Description. The school district contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and

Amory Separate School District

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

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 ending June 30, 2008 was 11.85% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2008, 2007, and 2006 were \$950,756, \$844,323, and \$777,396, respectively, which equaled the required contributions for each year.

(7) Risk Management.

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

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 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.

(8) Subsequent Event.

Amory Separate School District had a refunding Limited Obligation Bond issue, Series 2008 in the amount of \$2,235,000.

REQUIRED SUPPLEMENTARY INFORMATION

AMORY SEPARATE 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	\$ 2,132,793	2,145,293	2,145,295	12,500	2
State sources	8,934,784	8,659,106	8,659,105	(275,678)	(1)
Federal sources	221,000	265,064	265,064	44,064	0
Total Revenues	<u>11,288,577</u>	<u>11,069,463</u>	<u>11,069,464</u>	<u>(219,114)</u>	<u>1</u>
Expenditures:					
Instruction	6,928,564	6,870,580	6,842,863	57,984	27,717
Support services	3,480,394	3,822,384	3,809,110	(341,990)	13,274
Noninstructional services	410,500	13,406	13,406	397,094	0
Total Expenditures	<u>10,819,458</u>	<u>10,706,370</u>	<u>10,665,379</u>	<u>113,088</u>	<u>40,991</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>469,119</u>	<u>363,093</u>	<u>404,085</u>	<u>(106,026)</u>	<u>40,992</u>
Other Financing Sources (Uses):					
Insurance Loss Recoveries	2,000			(2,000)	0
Sale of transportation equipment	2,000			(2,000)	0
Sale of property	1,000			(1,000)	0
Transfers In	5,255	4,707		(548)	(4,707)
Transfers Out	(13,623)	(47,316)	(42,608)	(33,693)	4,708
Total Other Financing Sources (Uses)	<u>(3,368)</u>	<u>(42,609)</u>	<u>(42,608)</u>	<u>(39,241)</u>	<u>1</u>
Net Change in Fund Balances	<u>465,751</u>	<u>320,484</u>	<u>361,477</u>	<u>(145,267)</u>	<u>40,993</u>
Fund Balances:					
July 1, 2007	1,518,961	2,767,481	2,739,760	1,248,520	(27,721)
Prior period adjustments		18,692		18,692	(18,692)
July 1, 2007, as restated	<u>1,518,961</u>	<u>2,786,173</u>	<u>2,739,760</u>	<u>1,267,212</u>	<u>(46,413)</u>
June 30, 2008	\$ <u>1,984,712</u>	<u>3,106,657</u>	<u>3,101,237</u>	<u>1,121,945</u>	<u>(5,420)</u>

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

AMORY SEPARATE SCHOOL DISTRICT

Exhibit 2

Budgetary Comparison Schedule
 Title I - A Basic 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:					
Federal sources	\$ 376,696	417,045	417,045	40,349	0
Total Revenues	<u>376,696</u>	<u>417,045</u>	<u>417,045</u>	<u>40,349</u>	<u>0</u>
Expenditures:					
Instruction	292,468	279,500	279,500	12,968	0
Support services	116,087	137,545	137,545	(21,458)	0
Total Expenditures	<u>408,555</u>	<u>417,045</u>	<u>417,045</u>	<u>(8,490)</u>	<u>0</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(31,859)</u>	<u>0</u>	<u>0</u>	<u>31,859</u>	<u>0</u>
Other Financing Sources (Uses):					
Other financing sources				0	0
Other financing uses				0	0
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	<u>(31,859)</u>	<u>0</u>	<u>0</u>	<u>31,859</u>	<u>0</u>
Fund Balances:					
July 1, 2007	(11,597)			11,597	0
June 30, 2008	<u>\$ (43,456)</u>	<u>0</u>	<u>0</u>	<u>43,456</u>	<u>0</u>

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

AMORY SEPARATE SCHOOL DISTRICT

Exhibit 3

Budgetary Comparison Schedule

EHA Part B 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:					
Federal sources	\$ 413,662	342,380	342,380	(71,282)	0
Total Revenues	413,662	342,380	342,380	(71,282)	0
Expenditures:					
Instruction	298,592	202,892	202,892	95,700	0
Support services	111,733	139,488	139,488	(27,755)	0
Noninstructional services				0	0
Total Expenditures	410,325	342,380	342,380	67,945	0
Excess (Deficiency) of Revenues Over Expenditures	3,337	0	0	(3,337)	0
Other Financing Sources (Uses):					
Other financing sources				0	0
Other financing uses				0	0
Total Other Financing Sources (Uses)	0			0	0
Net Change in Fund Balances	3,337	0	0	(3,337)	0
Fund Balances:					
July 1, 2007				0	0
June 30, 2008	\$ 3,337	0	0	(3,337)	0

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

Amory Separate 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 Schedules present the original legally adopted budget, the final legally adopted budget, the actual data on the GAAP basis, variances between the original budget and the final budget, and variances between the final budget and the actual data.

(2) Budget Amendments and Revisions.

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

SUPPLEMENTAL INFORMATION

Amory Separate 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 <u>Expenditures</u>
U. S. DEPARTMENT OF AGRICULTURE/		
Passed-through the Mississippi Department of Education:		
Child Nutrition Cluster:		
School Breakfast Program	10.553	159,393
National School Lunch Program	10.555	464,094
Total child nutrition cluster		<u>623,487</u>
TOTAL U. S. DEPARTMENT OF AGRICULTURE		623,487
FEDERAL COMMUNICATION COMMISSION		
Administered through Universal Service Administrative Company:		
The school and libraries program of the Universal Service Fund	32.xxx	33,561
Total Federal Communication Commission		<u>33,561</u>
U. S. DEPARTMENT OF EDUCATION/		
Direct Program:		
Impact aid	84.041	558
Total		<u>558</u>
Passed-through the Mississippi Department of Education:		
Title I Grants to Local Educational Agencies	84.010	417,045
Career and Technical Education - Basic Grants to States	84.048	18,441
Safe and Drug Free Schools and Communities - National programs	84.184	17,586
Safe and Drug Free Schools and Communities - State Grants	84.186	5,416
Twenty-first century community learning centers	84.287	178,808
State Grants for Innovative Programs	84.298	2,925
Education technology state grants	84.318	4,172
Rural Education	84.358	58,013
Improving teacher quality - state grants	84.367	88,902
Total		<u>791,308</u>
Special Education Cluster:		
Special Education - Grants to States	84.027	349,913
Special Education - Preschool Grants	84.173	30,750
Total special education cluster		<u>380,663</u>
Total passed-through the MDE		<u>1,171,971</u>
TOTAL U. S. DEPARTMENT OF EDUCATION		<u>1,171,971</u>
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE		
Passed through the Mississippi Department of Education:		
Learn and Serve America - School and Community Based Program	94.004	9,598
Total Corporation for National and Community Service		<u>9,598</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Passed through the Mississippi Department of Education:		
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	4,000
Total passed-through the MDE		<u>4,000</u>
TOTAL U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		4,000
TOTAL FOR ALL FEDERAL AWARDS		<u>\$1,843,175</u>

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.

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

Schedule 2

	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 10,803,817	8,437,255	354,803	827,456	1,184,303
Other	4,040,144	1,147,735	131,032	36,184	2,725,193
Total	\$ 14,843,961	9,584,990	485,835	863,640	3,909,496
Total number of students *	1,742				
Cost per student	\$ 8,521	5,502	279	496	2,244

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

AMORY SEPARATE SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

"UNAUDITED"

General Fund

Last Four Years

	2008	2007*	2006*	2005*
Revenues:				
Local sources	\$ 2,145,295	2,107,929	2,057,727	1,853,667
State sources	8,659,105	7,737,917	7,347,083	7,141,434
Federal sources	265,064	270,112	164,646	160,437
Total Revenues	11,069,464	10,115,958	9,569,456	9,155,538
Expenditures:				
Instruction	6,842,863	6,452,457	5,915,429	5,658,455
Support services	3,809,110	3,179,673	2,936,598	2,677,537
Noninstructional services	13,406	20,111	23,171	16,275
Total Expenditures	10,665,379	9,652,241	8,875,198	8,352,267
Excess (Deficiency) of Revenues over Expenditures	404,085	463,717	694,258	803,271
Other Financing Sources (Uses):				
Insurance loss recoveries			3,882	
Sale of transportation equipment		1,738		1,157
Operating transfers in			18,755	3,608
Operating transfers out	(42,608)	(15,067)	(63,108)	(64,632)
Total Other Financing Sources (Uses)	(42,608)	(13,329)	(40,471)	(59,867)
Net Change in Fund Balances	361,477	450,388	653,787	743,404
Fund Balances:				
July 1,	2,739,760	2,289,372	1,635,585	892,181
June 30,	\$ 3,101,237	2,739,760	2,289,372	1,635,585

*SOURCE - PRIOR YEAR AUDIT REPORTS

AMORY SEPARATE 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	\$ 3,282,996	3,011,122	2,992,394	2,769,844
Intermediate sources	4,252	5,000		
State sources	9,700,976	8,737,460	8,328,555	8,142,925
Federal sources	2,074,120	2,146,384	1,974,769	2,138,143
Sixteenth section sources	14,401	4,707	5,255	3,608
Total Revenues	15,076,745	13,904,673	13,300,973	13,054,520
Expenditures:				
Instruction	8,232,291	7,786,473	7,259,220	7,109,527
Support services	4,694,854	3,859,597	3,631,043	3,343,333
Noninstructional services	1,213,134	1,158,170	1,142,555	1,149,493
Sixteenth section	11,711	9,996		
Facilities acquisition and construction			10,240	75,777
Debt service:				
Principal	560,000	525,000	505,000	490,000
Interest	131,971	145,244	162,860	176,459
Total Expenditures	14,843,961	13,484,480	12,710,918	12,344,589
Excess (Deficiency) of Revenues over Expenditures	232,784	420,193	590,055	709,931
Other Financing Sources (Uses):				
Sale of transportation equipment		1,738	3,882	1,157
Operating transfers in	47,315	15,067	81,863	68,240
Operating transfers out	(47,315)	(15,067)	(81,863)	(68,240)
Total Other Financing Sources (Uses)	0	1,738	3,882	1,157
Net Change in Fund Balances	232,784	421,931	593,937	711,088
Fund Balances:				
July 1,	4,192,767	3,768,279	3,170,340	2,460,295
Increase (Decrease) in reserve for inventory	1,223	2,557	4,002	(1,043)
June 30,	\$ 4,426,774	4,192,767	3,768,279	3,170,340

*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
Amory Separate School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Amory Separate School District as of and for the year ended June 30, 2008, which collectively comprise the Amory Separate School District's basic financial statements and have issued our report thereon dated December 15, 2008. 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 describe in the preceding paragraph and would not necessarily identify all deficiencies in the internal control 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, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the school district's financial statements that is more than inconsequential will not be prevented or detected by the school district's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Finding 2008-01 and 2008-02 to be significant deficiencies 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 neither of the significant deficiencies above are material weaknesses.

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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Amory Separate School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Amory Separate School District's responses and, accordingly, we express no opinion on them.

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
December 15, 2008

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 IN ACCORDANCE WITH OMB CIRCULAR A-133

Superintendent and School Board
Amory Separate School District

Compliance

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

AICPA & MSCPA
1929 Spillway Road, Suite B, Brandon, MS 39047, Telephone (601) 992-5292

Our consideration of the 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 more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in the internal control over compliance described in the accompanying schedule of finding and questioned costs as Finding 2008-3 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. However, we believe that the significant deficiency described above is not a material weakness.

Amory Separate School District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Amory Separate 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
December 15, 2008

Certified Public Accountants

FORTENBERRY & BALLARD, PC
Certified Public Accountants

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

Superintendent and School Board
Amory Separate School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Amory Separate School District as of and for the year ended June 30, 2008, which collectively comprise Amory Separate School District's basic financial statements and have issued our report thereon dated December 15, 2008. 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(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 state laws and regulations. However, providing an opinion on compliance with state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our procedures performed to test compliance with the requirements of Section 37-61-33 (3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$36,152 of classroom supply funds carried over from previous years.

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

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

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

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

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies and pass-through entities and is

not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
December 15, 2008

Certified Public Accountants

FINDINGS, CORRECTIVE ACTION PLAN AND AUDIT FOLLOW-UP

Amory Separate School District
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008

Section I: 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
 - b. Special Education Cluster.
CFDA# 84.027
CFDA# 84.173
8. The dollar threshold used to distinguish between Type A and Type B programs was: \$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? Yes.

Section 2: Financial Statement Findings

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

Significant Deficiencies:

Finding 2008-1

A lack of segregation of duties was noted in several areas. For instance, the business manager is responsible for both recording transactions (checks) with journal entries and reconciling the control accounts (bank statements). In another instance the business manager both recorded capital assets and managed the asset tagging and inventory. Sound internal control dictates that the person responsible for recording transactions should not also be responsible for reconciling the control accounts. The business manager has always been responsible for these jobs at this district as there were insufficient personnel available to handle these jobs. As a consequence school property could be lost or misappropriated and not be detected in a timely manner.

Recommendation:

Someone other than the business manager should be responsible for reconciling the control accounts and the fixed asset inventory and reconciliation.

School District's Response:

School district is considering the best resolution of this.

Finding 2008-2

During our test of internal controls surrounding the purchasing function, we noted 7 of 59 purchasing transactions where the invoice date preceded the purchase order date. The lack of proper internal controls preceding the purchase of goods could result in unauthorized or improperly approved transactions.

Recommendation:

Purchases should be properly approved prior to the ordering of goods.

School District's Response:

The district will ensure that purchase orders are properly completed and approved prior to the ordering of goods.

Section 3: Findings and Questioned Costs for Federal Awards

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

Significant Deficiency:

Finding 2008-3

Program: Child Nutrition Cluster

CFDA # 10.553 and 10.555

Grantor: United States Department of Agriculture

Passed through the Mississippi Department of Education

None of the equipment items observed at the Amory Middle School had been tagged and inventoried as part of the capital asset inventory. All school property should be tagged and inventoried. Currently the business manager is responsible for the capital asset inventory. Because of the priority of other responsibilities of the business manager, the capital asset management duties are sometimes overlooked. This could cause the school property to be lost or misappropriated and not be detected in a timely manner.

Recommendation:

For reasons of separation of duties and work load allocations, someone, other than the business manager, should be given responsibility for the fixed asset management.

School District's Response:

School district will ensure equipment items are properly tagged and inventoried.

AUDITEE'S CORRECTIVE ACTION PLAN

Amory Separate School District
PO Box 330
Amory, MS 38821
662-256-5991, Fax 662-256-6302
James Sappington - Superintendent
Kathy Cadden - Business Manager

AUDITEE'S CORRECTIVE ACTION PLAN

As required by Section __.315(b) of OMB Circular A-133, the Amory Separate School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Cost 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 style="padding-left: 40px;">Name: James Sappington, Superintendent Phone Number: 662-256-5991</p> <p>b. Corrective Action Planned: The school district is considering the best resolution of this issue.</p> <p>c. Anticipated Completion Date: June 30, 2009</p>
2008-2	<p>a. Name of Contact Person Responsible for Corrective Action</p> <p style="padding-left: 40px;">Name: James Sappington, Superintendent Phone Number: 662-256-5991</p> <p>b. Corrective Action Planned: Purchases will be approved prior to the ordering of goods.</p> <p>c. Anticipated Completion Date: June 30, 2009</p>
2008-3	<p>a. Name of Contact Person Responsible for Corrective Action</p> <p style="padding-left: 40px;">Name: James Sappington, Superintendent Phone Number: 662-256-5991</p> <p>b. Corrective Action Planned: Equipment items will be properly tagged and inventoried.</p> <p>c. Anticipated Completion Date: June 30, 2009</p>

Amory Separate School District
PO Box 330
Amory, MS 38821
662-256-5991, Fax 662-256-6302
James Sappington - Superintendent
Kathy Cadden - Business Manager

AUDITEE'S SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

As required by Section __.315(b) of OMB Circular A-133, the Amory Separate School District has prepared and hereby submits the following summary schedule of prior audit findings as of June 30, 2008:

<u>Finding</u>	<u>Status</u>
2007-1	Not corrected
2007-2	Not Corrected

