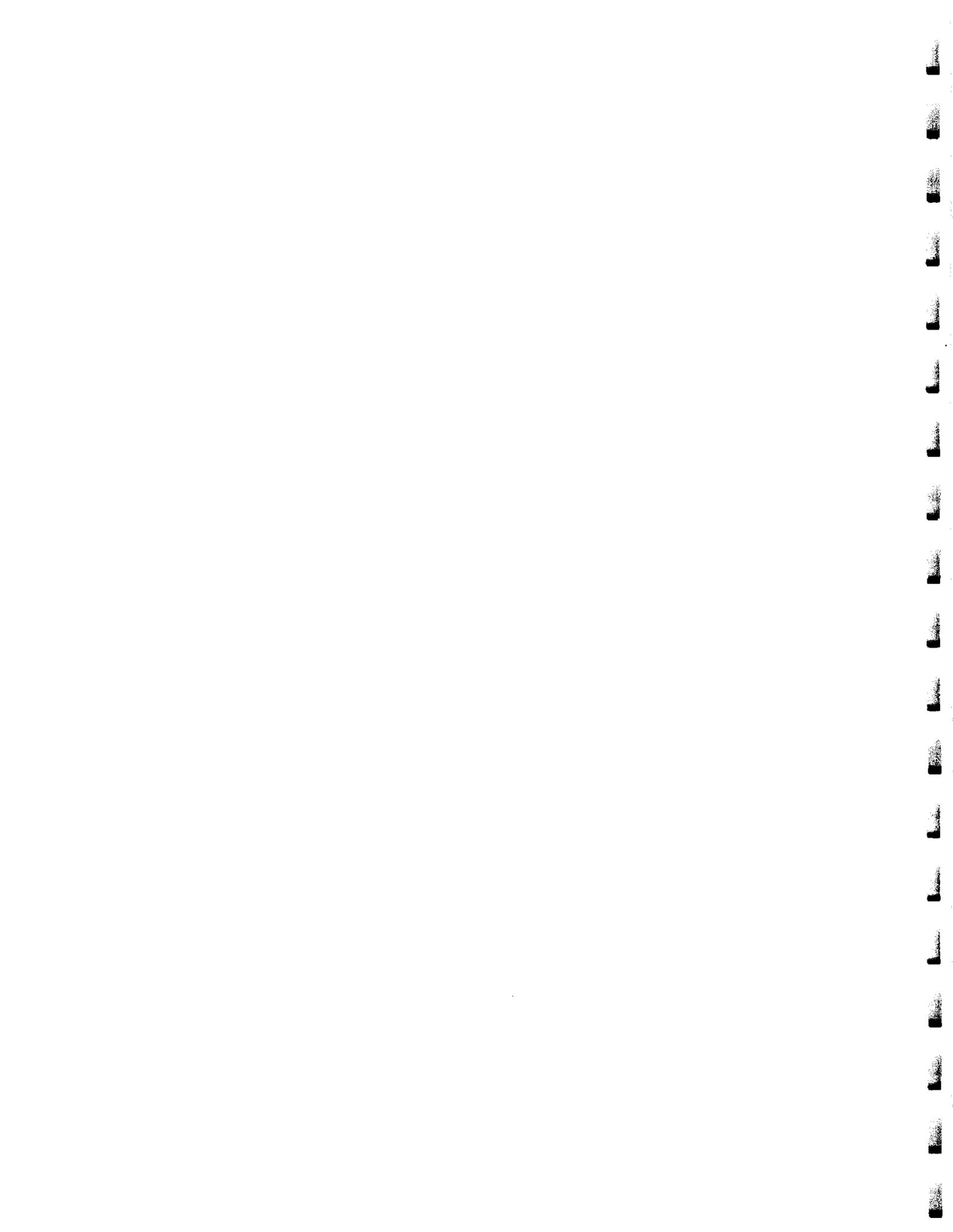




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DESOTO COUNTY SCHOOL DISTRICT
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008



**DESOTO COUNTY SCHOOL DISTRICT
TABLE OF CONTENTS**

FINANCIAL AUDIT REPORT.....	1
Independent Auditors' Report on the Basic Financial Statements and Supplemental Information.....	3
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	5
 FINANCIAL STATEMENTS	15
Statement of Net Assets	16
Statement of Activities	17
Balance Sheet – Governmental Funds.....	18
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets	19
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	20
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities.....	21
Statement of Fiduciary Assets and Liabilities	22
Notes to the Financial Statements	23
 REQUIRED SUPPLEMENTAL INFORMATION.....	41
Budgetary Comparison Schedule for the General Fund.....	42
Notes to the Required Supplemental Information	43
 SUPPLEMENTAL INFORMATION.....	44
Schedule of Expenditures of Federal Awards	45
Schedule of Instructional, Administrative and Other Expenditures – Governmental Funds.....	46
 OTHER SUPPLEMENTAL INFORMATION.....	47
Statement of Revenues, Expenditures and Changes in Fund Balances General Fund—Last Four Years	48
Statement of Revenues, Expenditures and Changes in Fund Balances All Governmental Funds—Last Four Years	49
 REPORTS ON COMPLIANCE AND INTERNAL CONTROL	50
Independent Auditors' 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 <u>Government Auditing Standards</u>	51
Independent Auditors' Report on Compliance with Requirements Applicable to each Major Federal Program and Internal Control over Compliance in Accordance with OMB Circular A-133	53
Independent Auditors' Report on Compliance with State Laws and Regulations	55
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS	58



DESOTO COUNTY SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

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WILLIAMS • PITTS • BEARD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT
ON THE BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

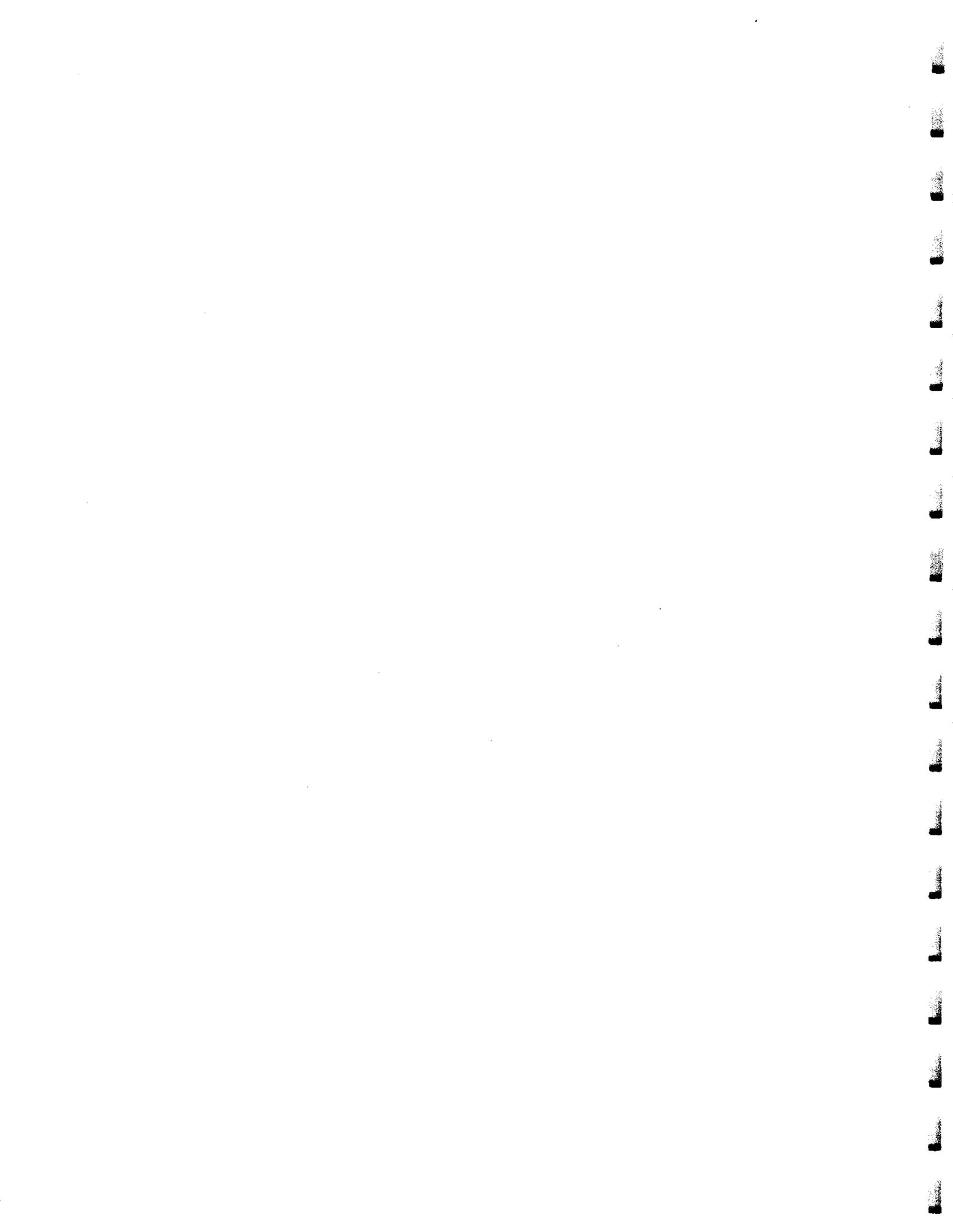
Superintendent and School Board
DeSoto County School District

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2009, on our consideration of the DeSoto County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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.



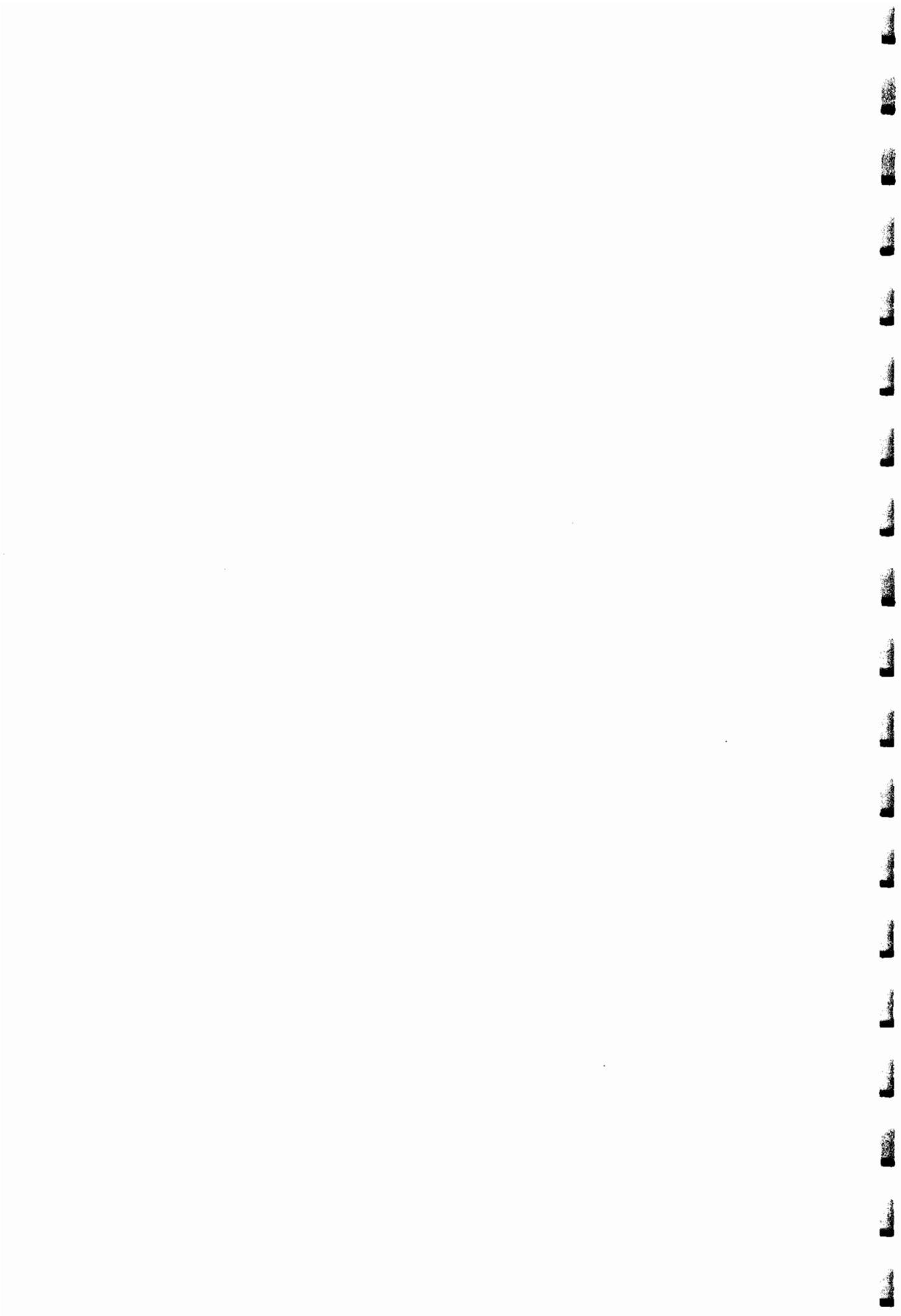
The Management's Discussion and Analysis on pages 5 through 13 and the Budgetary Comparison Schedule and corresponding notes on pages 42 through 43 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the DeSoto County School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. In addition, the Schedule of Instructional, Administrative and Other Expenditures – Governmental Funds is presented for the 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.

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Certified Public Accountants
January 21, 2009



DESOTO COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

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DESOTO COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For The Year Ended June 30, 2008

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

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

FINANCIAL HIGHLIGHTS

- Total net assets increased \$27,363,185, which represents a 17% increase from fiscal year 2007.
- General revenues account for \$201,230,114 in revenue, or 87% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$30,539,829 or 13% of total revenues.
- The District had \$204,783,583 in expenses; only \$30,539,829 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$201,230,114 were more than adequate to provide for the balance of these expenses.
- Among major funds, the General Fund had \$189,182,303 in revenues and \$170,171,439 in expenditures. The General Fund's fund balance increased \$10,100,841 from the prior year. The following revenues were higher than projected by approximately \$2,300,000: in-lieu of taxes, interest income, rental rebates, e-rate rebates, and TVA revenues. Expenditures were not increased to offset this increase. Instructional expenditures for salaries and benefits were approximately \$2,000,000 less than projected due to lower enrollment than projected. Expenditures for approximately \$4,500,000 in construction projects such as the purchase of a warehouse, renovations at Hernando High School, and lighting retrofits were delayed until the next fiscal year.
- Capital assets, net of accumulated depreciation, increased by \$2,246,203. The increase in capital assets was due to the completion of DeSoto West Elementary School and the road project for the same site. Total completed projects exceeded \$12,000,000, but depreciation offset the increase.
- Long-term debt decreased by \$12,275,000 (exclusive of compensated absences). There were no issues of new debt in FY2008.

**DESOTO COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For The Year Ended June 30, 2008**

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing

DESOTO COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For The Year Ended June 30, 2008

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 19 and 21, 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 18 – 21 of this report.

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23 – 40 of this report.

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund. This required supplementary information can be found on page 42 of this report.

Additionally, a schedule of expenditures of federal awards (required by OMB Cir. A-133), a schedule of instructional, administrative and other expenditures for governmental funds, and statements of revenues and changes in fund balances for the last four years (required by the Mississippi Department of Education) can all be found in this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$188,480,896 as of June 30, 2008.

By far the largest portion of the District's net assets (60%) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment, leased property under capital leases and construction in progress, less any related debt outstanding that was used to acquire those assets. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending. The second largest portion of the District's

DESOTO COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For The Year Ended June 30, 2008

net assets (29%) reflects its unrestricted fund balance which is primarily cash and investments which will be used in future fiscal years to fund transportation equipment and the building of new schools.

The District's financial position is a product of several financial transactions including the net result of activities, the 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. Current assets increased by \$12,849,260 primarily due to the postponement of construction projects resulting in an increase in cash and investments.

	Net Assets		Percentage Change
	2008	2007	
Assets:			
Current assets	\$ 88,247,851	\$ 75,398,591	17.0%
Non-current assets	790,716	873,264	-9.5%
Capital assets, net	278,288,204	276,042,001	0.8%
Total assets	367,326,771	352,313,856	4.3%
Liabilities:			
Current liabilities	\$ 23,195,437	\$ 24,542,556	-5.5%
Long-term liabilities	155,650,438	166,653,589	-6.6%
Total liabilities	178,845,875	191,196,145	-6.5%
Net assets:			
Invested in capital assets, net of related debt	113,586,926	99,417,001	14.3%
Restricted	19,314,143	16,159,120	19.5%
Unrestricted	55,579,827	45,541,590	22.0%
Total net assets	\$ 188,480,896	\$ 161,117,711	17.0%

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

- The principal retirement of \$12,275,000 in long-term debt.
- Approximately \$6,500,000 in new construction which was mainly comprised of Southaven High School Renovations and site preparation and construction work on three new schools.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2008 were \$231,769,943. The total cost of all programs and services was \$204,783,583. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2008 and 2007.

DESOTO COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For The Year Ended June 30, 2008

	Change in Net Assets		Percentage Change
	2008	2007	
Revenues:			
Program revenues			
Charges for services	\$ 10,632,321	\$ 10,572,974	0.6%
Operating grants and contributions	19,061,096	16,077,850	18.6%
Capital grants	846,412	845,979	0.1%
General revenues			
Property taxes	65,027,217	56,985,745	14.1%
Grants and contributions not restricted	132,513,459	111,008,560	19.4%
Other	3,689,438	4,390,097	-16.0%
Total revenues	\$ 231,769,943	\$ 199,881,205	16.0%
Expenses:			
Instruction	\$ 112,037,633	\$ 100,260,245	11.7%
Support services	74,607,983	68,479,538	8.9%
Non-instructional	10,924,700	10,292,257	6.1%
Interest on long-term liabilities	7,213,267	7,163,039	0.7%
Total expenses	204,783,583	186,195,079	10.0%
Increase in net assets	\$ 26,986,360	\$ 13,686,126	97.2%

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

	2008		2007	
	Total Expenses	Net (Expense) Revenue	Total Expenses	Net (Expense) Revenue
Instruction	\$ 112,037,633	\$ (92,664,581)	\$ 100,260,245	\$ (83,083,719)
Support services	74,607,983	(74,516,406)	68,479,538	(68,375,554)
Non-instructional	10,924,700	150,500	10,292,257	(75,964)
Interest on long-term liabilities	7,213,267	(7,213,267)	7,163,039	(7,163,039)
Total expenses	\$ 204,783,583	\$ (174,243,754)	\$ 186,195,079	\$ (158,698,276)

In 2008, net cost of governmental activities (\$174,243,754), was financed by general revenue, which is made up primarily of property taxes of \$65,027,217 and state revenue of \$131,395,453. The Mississippi Adequate Education Program provides the largest portion of unrestricted state funds in the amount of \$122,884,193, with other state grants categorized as Homestead Exemption, Ad Valorem Tax Reduction Grant, and Chickasaw Funds. In 2007 property taxes were \$56,985,745 and state revenue \$109,192,818. Investment earnings accounted for \$2,697,944 of funding in 2008 and \$3,686,004 in 2007.

**DESOTO COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For The Year Ended June 30, 2008**

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 \$77,035,501, an increase of \$12,455,749 primarily due to increased revenues sources and the postponement of capital projects. \$60,093,621 or 78% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$16,941,880 is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$10,100,841, a result of capital projects being postponed to future years and revenues that came in higher than projected. The net change in fund balance of all other Non-general Funds showed an increase of \$2,354,908.

BUDGETARY HIGHLIGHTS

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

- Budget amendments were made to increase expenditures for additional personnel and support services necessary for the additional 667 children enrolled in FY08. Amendments were also made for new funds and carry-over funds in Federal Programs as well as grants awarded during the year.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2008, the District's total capital assets were \$278,288,204, including school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$2,246,203 from the previous year. The increase in capital assets is mainly due to the construction of Lake Cormorant Elementary, road improvement projects, completion of construction projects that begin in prior year as well as various other smaller building renovation projects. Approximately \$6,548,000 in construction in progress was added due to the beginning construction of three new schools and Southaven High School renovations. Accumulated depreciation as of June 30, 2008 was \$52,821,693 and total depreciation expense for the year was \$8,913,370.

**DESOTO COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For The Year Ended June 30, 2008**

	<u>Capital Assets, Net of Depreciation</u>		<u>Percentage Change</u>
	<u>2008</u>	<u>2007</u>	
Land	\$ 10,447,782	\$ 10,410,865	0.4%
Construction in Progress	5,869,162	12,276,609	-52.2%
Buildings	225,640,662	221,570,828	1.8%
Building improvements	5,584,809	5,360,177	4.2%
Improvements other than buildings	15,320,335	12,552,677	22.0%
Mobile equipment	10,244,274	8,838,598	15.9%
Furniture and equipment	5,181,180	5,032,247	3.0%
Total	<u>\$ 278,288,204</u>	<u>\$ 276,042,001</u>	0.8%

Additional information on the District's capital assets can be found in Note 4 of this report.

Debt Administration. At June 30, 2008, the District had \$165,523,444 in general obligation bonds and other long-term debt outstanding, of which \$11,015,000 is due within one year. The Limited Tax Notes were financed with a twenty (20) year debt schedule. The District still has 1.00 mils available to borrow under the Limited Tax Note statute. The 2002 General Obligation bonds were refinanced with a twelve (12) year debt schedule. The 2004 General Obligation bond Series A was financed with a twelve (12) year debt schedule. Series B was financed with a ten (10) year debt schedule. The 2005 General Obligation bonds were financed with a fourteen (14) year debt schedule. Ad valorem requests to DeSoto County are adequate to cover the annual debt service for FY2009. The 2004 Certificates of Participation were financed with a fifteen (15) year debt schedule. The debt service payments are financed through a combination of District Maintenance funds and the EEF Buildings and Buses fund which has been pledged to retire this debt.

The District maintains an AAA bond rating. Additional information of the District's long-term debt can be found in Note 5 of this report.

CURRENT ISSUES

The DeSoto County School District is financially stable and has accomplished this by committing itself to financial excellence for many years. DeSoto County continues to experience growth, though not as high as projected or experienced in the past five years. The District did gain over 650 children in FY08 and projects at least the same growth for FY09. Due to overcrowded conditions that existed prior to the FY08 gain, the District will continue with the construction of five additional schools and several building additions for relief. The District is also planning to embark on a \$10,000,000 energy management contract financed through Certificates of Participation.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the DeSoto County School District, 5 E. South St, Hernando, MS 38632 .

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DESOTO COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS

Statement of Net Assets

June 30, 2008

	Government Activities
Assets	
Cash and cash equivalents	\$ 76,448,715
Investments	5,582,515
Due from other governments	4,522,181
Due from agency funds	1,211,799
Other receivable	386,000
Inventories	96,641
Bond issue cost, capital related	790,716
Capital assets, non-depreciable:	
Land	10,447,782
Construction in progress	5,869,162
Capital assets, net of accumulated depreciation:	
Buildings	225,640,662
Building improvements	5,584,809
Improvements other than buildings	15,320,335
Mobile equipment	10,244,274
Furniture and equipment	5,181,180
Total assets	<u>\$ 367,326,771</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 10,630,128
Unearned revenue	196,222
Interest payable on long-term liabilities	1,354,087
Long-term liabilities, due within one year	
Capital related liabilities	11,015,000
Long-term liabilities, due beyond one year	
Capital related liabilities	153,335,000
Bond premium, capital related	2,070,539
Bond discount, capital related	(325,713)
Loss on advanced refunding bond, capital related	(602,832)
Non-capital liabilities	1,173,444
Total liabilities	<u>\$ 178,845,875</u>
Net Assets	
Invested in capital assets, net of related debt	\$ 113,586,926
Restricted net assets	
Expendable:	
School-based activities	3,436,991
Debt service	5,174,738
Capital improvements	10,271,470
Unemployment benefits	430,944
Unrestricted	55,579,827
Total Net Assets	<u>\$ 188,480,896</u>

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

Statement of Activities

For the year ended June 30, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental Activities:					
Instruction	\$112,037,633	6,236,727	13,136,325	-	(92,664,581)
Support services	74,607,983	-	91,577	-	(74,516,406)
Noninstructional services	10,924,700	4,395,594	5,833,194	846,412	150,500
Interest and other expenses on long-term liabilities	7,213,267	-	-	-	(7,213,267)
Total Governmental Activities	<u>\$204,783,583</u>	<u>10,632,321</u>	<u>19,061,096</u>	<u>846,412</u>	<u>(174,243,754)</u>
General Revenues:					
Taxes:					
General purpose levies					48,058,054
Debt purpose levies					16,969,163
Unrestricted grants and contributions:					
State					131,395,453
Federal					1,118,006
Unrestricted investment earnings					2,697,944
Other					991,494
Total general revenues					<u>201,230,114</u>
Changes in Net Assets					<u>26,986,360</u>
Beginning net assets					161,117,711
Prior period adjustments (Note 8)					<u>376,825</u>
Net Assets - Beginning - Restated					161,494,536
Net Assets - Ending					<u>\$ 188,480,896</u>

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

Balance Sheet – Governmental Funds

June 30, 2008

	Major Funds				Total Governmental Funds
	Limited Tax Note			Other Governmental Funds	
	General Fund	Capital Program Fund	Misc Construction Fund		
Assets					
Cash and cash equivalents	\$ 60,135,702	\$ 708,181	\$ 3,025,617	\$ 12,579,215	\$ 76,448,715
Investments	73,276	-	5,440,440	68,799	5,582,515
Due from other governments	2,444,588	-	-	2,077,593	4,522,181
Due from other funds	3,593,178	1,297,015	1,331,588	3,247	6,225,028
Inventories	-	-	-	96,641	96,641
Total Assets	<u>\$ 66,246,744</u>	<u>\$ 2,005,196</u>	<u>\$ 9,797,645</u>	<u>\$ 14,825,495</u>	<u>\$ 92,875,080</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable and accrued liabilities	\$ 9,246,964	\$ 41,650	\$ 419,371	\$ 922,143	\$ 10,630,128
Due to other funds	246,509	1,963,546	-	2,803,174	5,013,229
Unearned revenue	-	-	-	196,222	196,222
Total Liabilities	<u>9,493,473</u>	<u>2,005,196</u>	<u>419,371</u>	<u>3,921,539</u>	<u>15,839,579</u>
Fund Balances:					
Reserved for:					
Inventory	-	-	-	96,641	96,641
Capital projects	-	-	9,304,780	-	9,304,780
Debt service	-	-	-	6,528,825	6,528,825
Unemployment benefits	-	-	-	430,944	430,944
Unreserved					
Designated for, reported in:					
Capital project funds	-	-	73,494	507,196	580,690
Undesignated, reported in:					
General fund	56,753,271	-	-	-	56,753,271
Special revenue funds	-	-	-	3,340,350	3,340,350
Total Fund Balances	<u>56,753,271</u>	<u>-</u>	<u>9,378,274</u>	<u>10,903,956</u>	<u>77,035,501</u>
Total Liabilities and Fund Balances	<u>\$ 66,246,744</u>	<u>\$ 2,005,196</u>	<u>\$ 9,797,645</u>	<u>\$ 14,825,495</u>	<u>\$ 92,875,080</u>

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

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

	<u>Amount</u>
Total Fund Balances - Governmental Funds	\$ 77,035,501
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets are used in governmental activities and are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$52,821,693.	278,288,204
2. Other long-term assets (bond issue costs and other receivables) are not available to pay for current expenditures and therefore are deferred in the funds.	1,176,716
3. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(165,523,444)
4. Governmental funds recognize interest on long-term debt when it becomes due, however the Statement of Net Assets recognizes interest as it accrues.	(1,354,087)
5. Bond premiums, bond discounts and loss on redemption of bonds are reported as other financing sources and uses in the governmental funds but as a liability and contra-liability on the statement of net assets.	<u>(1,141,994)</u>
Total Net Assets	<u><u>\$ 188,480,896</u></u>

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

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
For the year ended June 30, 2008

	Major Funds				
	Limited Tax Note				Total Governmental Funds
	General Fund	Capital Program Fund	Misc Construction Fund	Other Governmental Funds	
Revenue					
Local sources	\$ 56,156,894	\$ 387,764	\$ 6,361	\$ 22,946,163	\$ 79,497,182
Intermediate sources	8,389	-	-	-	8,389
State sources	131,910,562	-	-	2,741,809	134,652,371
Federal sources	1,106,458	-	-	16,487,347	17,593,805
Total revenues	189,182,303	387,764	6,361	42,175,319	231,751,747
Expenditures					
Instruction	102,592,391	-	-	9,536,417	112,128,808
Support services	62,690,180	973,011	20,414	7,625,573	71,309,178
Noninstructional services	1,484,811	-	-	9,344,879	10,829,690
Facilities acquisition and construction	3,404,057	1,034,181	1,062,166	-	5,500,404
Debt Service:					
Principal	-	-	-	12,275,000	12,275,000
Interest	-	-	-	7,260,194	7,260,194
Other	-	-	-	15,910	15,910
Total expenditures	170,171,439	2,007,192	1,082,580	46,057,973	219,319,184
Excess (deficiency) of revenues over expenditures	19,010,864	(1,619,428)	(1,076,219)	(3,882,654)	12,432,563
Other Financing Sources (Uses)					
Insurance loss recoveries	18,196	-	-	-	18,196
Sale of transportation equipment	38,199	-	-	-	38,199
Operating transfers in	35,623	-	5,000,000	6,760,182	11,795,805
Other financing sources	304,805	-	-	-	304,805
Operating transfers out	(10,619,388)	-	-	(1,176,417)	(11,795,805)
Other financing use	(226,039)	-	-	(78,899)	(304,938)
Total other financing sources and uses	(10,448,604)	0	5,000,000	5,504,866	56,262
Net change in fund balances	8,562,260	(1,619,428)	3,923,781	1,622,212	12,488,825
Fund balances:					
July 1, 2007, as previously reported	46,652,430	1,619,428	5,454,493	10,853,401	64,579,752
Prior period adjustments	(1,000)	-	-	(8,175)	(9,175)
July 1, 2007, as restated	46,651,430	1,619,428	5,454,493	10,845,226	64,570,577
Decrease in reserve for inventory	-	-	-	(23,901)	(23,901)
Residual equity transfer in (out)	1,539,581	-	-	(1,539,581)	-
June 30, 2008	\$ 56,753,271	\$ -	\$ 9,378,274	\$ 10,903,956	\$ 77,035,501

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

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

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ 12,488,825
Amounts reported for governmental activities in the Statement of Activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchased amounted to \$11,755,369, and the depreciation expense amounted to \$8,913,370.	2,841,999
2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Activities.	12,275,000
3. Governmental funds recognize interest on long-term debt when it becomes due, however, the Statement of Activities recognizes interest as it accrues regardless of when it becomes due.	94,630
4. Gains and losses on the sale or disposals of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds.	(595,796)
5. Issuance cost for long-term liabilities is reported as expenditures in the governmental funds, but is deferred and amortized in the statement of activities. Bond premiums, discounts, and loss on redemption of bonds are reported as other financing sources and uses in the governmental funds but are deferred and amortized in the statement of activities.	(82,548)
6. Decrease in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are increased in the statement of activity.	(23,901)
7. Expenses in the Statement of Activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds:	
Compensated absences	<u>(62,604)</u>
Change in Net Assets of Governmental Activities	<u>\$ 26,986,360</u>

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

**Statement of Fiduciary Assets and Liabilities
June 30, 2008**

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 2,584,460
Due from other governments	<u>164,454</u>
Total Assets	<u>\$ 2,748,914</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 1,366,970
Due to other funds	1,211,799
Due to student clubs	<u>170,145</u>
Total Liabilities	<u>\$ 2,748,914</u>

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

DESOTO COUNTY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

1. Summary of Significant Accounting Policies.

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

A. Financial Reporting Entity.

As defined by accounting principles generally accepted in the United States of America, the school district is considered a "primary government." The school district is governed by a five member board to which each member was elected by the citizens of each defined county district.

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

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

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

B. Basis of Presentation.

Government-wide Financial Statements:

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

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

DESOTO COUNTY SCHOOL DISTRICT
Notes to Financial Statements
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.

Limited Tax Note Capital Program Fund – This is a capital projects fund which received the proceeds of the 2006 Limited Tax Note issued for purchasing school buses, transportation equipment, constructing, renovating and equipping schools.

Miscellaneous Construction Fund - This is a capital projects fund which contains funds set aside to complete the projects started with bond money and three mill money. The funds are invested until the time needed.

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

Additionally, the school district reports the following fund types:

DESOTO COUNTY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

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

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

FUDICIARY FUNDS

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

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

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

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

Ad valorem property taxes are levied by the governing authority of the county on behalf of the school district based upon an order adopted by the school board of the school district requesting an ad valorem tax effort in dollars.

DESOTO COUNTY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

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.

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

D. Account Classifications.

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

E. Encumbrances.

An encumbrance system is maintained to account for commitments resulting from purchase orders, work orders and contracts during the fiscal year. However, the school district attempts to liquidate all encumbrances at year-end. Encumbrances outstanding at year-end are not reported as reservations of fund balances since they do not constitute expenditures or liabilities.

F. Assets, liabilities, and net assets or equity

1. Cash and Cash Equivalents and Investments.

Cash and cash equivalents.

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

Investments.

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

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

Investments for the district, are reported at fair market value.

DESOTO COUNTY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

2. Receivables and payables

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

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

3. Due from other Governments

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

4. Inventories and Prepaid Items.

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

Prepaid items, such as prepaid insurance, are not reported for governmental fund types since the cost 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 or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost or estimated historical cost based on appraisals or deflated current replacement cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the thresholds in the following table, and estimated useful lives in excess of two years.

DESOTO COUNTY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

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

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

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

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

7. Compensated Absences.

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

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

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

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

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

DESOTO COUNTY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

9. Fund Equity.

Fund Financial Statements:

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

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

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

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

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

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

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

Unreserved – designated for, reported in Capital Projects Funds – An account that represents a portion of the unreserved fund balance that the school board has specifically obligated for future repairs, renovations, and construction projects of district buildings and facilities.

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

2. Cash and Cash Equivalents and Investments.

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

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

DESOTO COUNTY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

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 (FDIC).

Investments. Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to invest surplus funds in the types of investments authorized by Section 27-105-33(d) and (e), Miss. Code Ann. (1972). This section permits the following types of investments: (a) certificates of deposits and interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, the principal and interest of which are fully guaranteed by the government or enumerated agency of the United States; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or interest in, and open-end or closed-end any management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration. Investment income on bond funds (Capital Projects), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Amounts less than \$100 can be credited to the General Fund.

Cash and Cash Equivalents.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$76,521,991 (which includes \$73,276 of certificates of deposit with original maturities beyond three months and reported on exhibit C as investments) and \$2,584,460, respectively. The bank balance was \$86,864,855.

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 FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2008, none of the district's bank balance of \$86,864,855 was exposed to custodial credit risk.

Investments.

As of June 30, 2008, the district had the following investments. Except for the investment in certificates of deposit, all investments are in an internal investment pool.

Investment Type	Maturities (in years)	Fair Value	Rating	% of Total Investments
Mississippi Education Investment Pool	less than 1	\$ 5,509,239	unrated	98.7%
Certificates of deposit	less than 1	<u>73,276</u>		1.3%
		<u>\$ 5,582,515</u>		

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

DESOTO COUNTY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

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

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

Concentration of Credit Risk. Disclosures of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U. S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2008, the district had 98.7% of its investments in the Mississippi Educational Investment Pool.

3. Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds

	<u>Due From</u>	<u>Due To</u>
Major funds:		
General fund	\$ 3,593,178	\$ 246,509
Other major fund		
Limited tax note capital program fund	1,297,015	1,963,546
Misc construction fund	1,331,588	-
Other governmental funds	3,247	2,803,174
Fiduciary funds	-	1,211,799
	<u> </u>	<u> </u>
Total Funds	<u>\$ 6,225,028</u>	<u>\$ 6,225,028</u>

“Due from’s” consist primarily of approximately \$1,250,000 due from debt service to capital projects, \$1,300,000 due from Limited Tax Note Capital Program Fund to Misc Construction Fund, and \$2,180,000 due to the general fund for year-end loans to various funds. There is also approximately \$1,000,000 due from agency funds to the general fund.

B. Transfers In/Out

	<u>Transfers In</u>	<u>Transfers Out</u>
Major funds:		
General fund	\$ 35,623	\$ 10,619,388
Other major fund		
Misc construction fund	5,000,000	-
Other governmental funds	6,760,182	1,176,417
	<u> </u>	<u> </u>
Total Funds	<u>\$ 11,795,805</u>	<u>\$ 11,795,805</u>

DESOTO COUNTY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

Transfers out of other governmental funds consist primarily of approximately \$850,000 transferred from EEF Buildings and Buses Fund to debt service funds and \$264,000 transferred from Title I Fund to Consolidated Admin Cost Fund. Transfers out of the general fund consist primarily of \$5,000,000 to the Misc Construction Fund, \$2,470,000 to Vocational Education Fund, \$991,000 to Technology in the Classroom Fund and \$1,950,000 to debt service funds.

4. Capital Assets.

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

	Balance July 1, 2007	Additions	Retirements	Completed Construction	Balance June 30, 2008
Governmental Activities:					
<u>Non-depreciable capital assets:</u>					
Land	\$ 10,410,865	\$ 480,250	\$ 443,333	\$ -	\$ 10,447,782
Construction in progress	12,276,609	6,548,004	-	(12,955,451)	5,869,162
Total non-depreciable capital assets	<u>22,687,474</u>	<u>7,028,254</u>	<u>443,333</u>	<u>(12,955,451)</u>	<u>16,316,944</u>
<u>Depreciable capital assets:</u>					
Buildings	252,716,821	-	-	9,233,151	261,949,972
Building improvements	5,890,473	-	-	479,428	6,369,901
Improvements other than buildings	13,770,823	392,885	-	3,061,012	17,224,720
Mobile equipment	16,289,398	3,077,479	775,851	-	18,591,026
Furniture and equipment	9,321,925	1,256,751	103,202	181,860	10,657,334
Total depreciable capital assets	<u>297,989,440</u>	<u>4,727,115</u>	<u>879,053</u>	<u>12,955,451</u>	<u>314,792,953</u>
<u>Less accumulated depreciation for:</u>					
Buildings	31,145,993	5,163,317	-	-	36,309,310
Building improvements	530,296	254,796	-	-	785,092
Improvements other than buildings	1,218,146	686,239	-	-	1,904,385
Mobile equipment	7,450,800	1,538,000	642,048	-	8,346,752
Furniture and equipment	4,289,678	1,271,018	84,542	-	5,476,154
Total accumulated depreciation	<u>44,634,913</u>	<u>8,913,370</u>	<u>726,590</u>	<u>-</u>	<u>52,821,693</u>
Total depreciable capital assets, net	<u>253,354,527</u>	<u>(4,186,255)</u>	<u>152,463</u>	<u>12,955,451</u>	<u>261,971,260</u>
Governmental activities capital assets, net	<u>\$ 276,042,001</u>	<u>\$ 2,841,999</u>	<u>\$ 595,796</u>	<u>\$ -</u>	<u>\$ 278,288,204</u>

Depreciation expense was charged to the following governmental functions:

Governmental activities:	<u>Amount</u>
Instruction	\$ 134,005
Support services	8,384,416
Non-instructional	<u>394,949</u>
Total depreciation expense	<u>\$ 8,913,370</u>

DESOTO COUNTY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

The capital assets above include significant amounts of land, buildings, furniture and equipment which have been valued at estimated historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition.

Commitments under construction contracts at June 30, 2008, are summarized as follows:

	<u>Spent to</u> <u>June 30, 2008</u>	<u>Remaining</u> <u>Commitment</u>
<u>Governmental Activities</u>		
Lake Comorant High School Site Preparation	\$ 304,103	\$ 8,939,297
Southaven High School Renovations	3,010,762	77,321
Centerhill Middle School Site Preparation	487,247	288,162
	<u>\$ 3,802,112</u>	<u>\$ 9,304,780</u>

Construction projects included in governmental activities are funded with Limited Tax Notes and General Obligation Bonds.

5. Long-Term liabilities.

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

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2008</u>	<u>Amounts due</u> <u>within one year</u>
A.. General Obligation Bonds	\$ 113,190,000	\$ -	\$ 9,030,000	\$ 104,160,000	\$ 7,665,000
B. Certificates of Participation	24,705,000	-	1,895,000	22,810,000	1,940,000
C. Three mill-ten year notes Payable	38,730,000	-	1,350,000	37,380,000	1,410,000
D. Compensated Absenses Payable	1,110,840	62,604	-	1,173,444	-
Total	<u>\$ 177,735,840</u>	<u>\$ 62,604</u>	<u>\$ 12,275,000</u>	<u>\$ 165,523,444</u>	<u>\$ 11,015,000</u>

The following is a summary of changes in bond premiums, discounts, loss on bond redemption, and bond costs:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2008</u>
Bond Premiums	\$ 2,240,195	\$ -	\$ 169,656	\$ 2,070,539
Bond Discounts	(344,142)	-	(18,429)	(325,713)
Loss on Bond Redemption	(703,304)	-	(100,472)	(602,832)
Total	<u>\$ 1,192,749</u>	<u>\$ -</u>	<u>\$ 50,755</u>	<u>\$ 1,141,994</u>

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2008</u>
Bond Issuance Costs	\$ 873,264	\$ -	\$ 82,548	\$ 790,716

DESOTO COUNTY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

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:

	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General Obligation Refunding Bonds					
Series 2002	2.00-5.00%	10/15/2002	2/1/2014	\$ 23,015,000	\$ 14,735,000
General Obligation Bond A					
Series 2004	3.50-5.00%	8/10/2004	5/1/2016	36,000,000	23,940,000
General Obligation Bond B					
Series 2004	3.25-4.00%	8/10/2004	5/1/2014	4,000,000	2,235,000
General Obligation Bond C					
Series 2005	3.5-5.0%	6/1/2005	5/1/2019	75,000,000	63,250,000
Total				<u>\$ 138,015,000</u>	<u>\$ 104,160,000</u>

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

Year Ending June 30	Principal	Interest	Total
2009	\$ 7,665,000	\$ 4,249,668	\$ 11,914,668
2010	9,125,000	3,985,981	13,110,981
2011	9,820,000	3,604,206	13,424,206
2012	11,025,000	3,184,269	14,209,269
2013	8,940,000	2,665,856	11,605,856
2014-2018	46,585,000	7,833,856	54,418,856
2019-2023	11,000,000	385,000	11,385,000
Total	<u>\$ 104,160,000</u>	<u>\$ 25,908,836</u>	<u>\$ 130,068,836</u>

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 7% of property assessments as of October 1, 2007. This debt will be retired from the General Obligation Bond Retirement Fund.

DESOTO COUNTY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

B. Certificates of Participation Payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
2004 Certificate of Participation	3.4-4.4%	12/1/2004	12/1/2019	\$ 20,120,000	\$ 15,345,000
2005 Certificate of Participation	3.7-4.3%	7/1/2005	6/1/2020	8,900,000	7,465,000
Total				<u>\$ 29,020,000</u>	<u>\$ 22,810,000</u>

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

Year Ending June 30	Principal	Interest	Total
2009	\$ 1,940,000	\$ 846,544	\$ 2,786,544
2010	1,810,000	791,796	2,601,796
2011	1,665,000	740,041	2,405,041
2012	1,720,000	687,134	2,407,134
2013	1,775,000	629,813	2,404,813
2014-2018	10,060,000	1,989,671	12,049,671
2019-2020	3,840,000	169,900	4,009,900
Total	<u>\$ 22,810,000</u>	<u>\$ 5,854,899</u>	<u>\$ 28,664,899</u>

This debt will be retired from the General Fund and the EEF Building and Bus Fund.

C. Three mill notes payable.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Limited Tax Notes, Series 2002	3.9-5.5%	7/1/2002	4/1/2022	\$ 16,450,000	\$ 13,550,000
Limited Tax Notes, Series 2006	4.0-5.25%	11/20/2006	4/1/2026	24,530,000	23,830,000
Total				<u>\$ 40,980,000</u>	<u>\$ 37,380,000</u>

DESOTO COUNTY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

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

Year Ending June 30	Principal	Interest	Total
2009	\$ 1,410,000	\$ 1,696,944	\$ 3,106,944
2010	1,470,000	1,637,169	3,107,169
2011	1,530,000	1,579,094	3,109,094
2012	1,590,000	1,517,894	3,107,894
2013	1,655,000	1,485,454	3,140,454
2014-2018	9,380,000	9,196,781	18,576,781
2019-2023	11,765,000	3,786,981	15,551,981
2024-2027	8,580,000	749,231	9,329,231
Total	\$ 37,380,000	\$ 21,649,548	\$ 59,029,548

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

D. Compensated absences payable.

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

6. Defined Benefit Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary and the school district is required to contribute at an actuarially determined rate. The rate for fiscal year ended 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 \$12,894,820, \$10,945,513, and \$9,835,171, respectively, which equaled the required contributions for each year.

DESOTO COUNTY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2008

7. Other Commitments.

Operating leases:

The school district has several operating leases for the following:

1. Xerox 4110CP copier
2. Xerox 4110CP copier
3. Xerox W5675PT copier
4. Xerox 4112CP copier
5. Xerox 4110 CP copier

Lease expenditures for the year ended June 30, 2008 amounted to \$69,257. Future lease payments for these leases are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2009	\$ 79,196
2010	79,195
2011	66,195
2012	56,445
2013	<u>11,401</u>
Total	<u>\$ 292,432</u>

8. Prior Period Adjustments/Exhibits.

A summary of significant fund equity adjustments is as follows:

Exhibit B – Statement of Activities

<u>Explanation</u>	<u>Amount</u>
1. Addition to Title V Innovative fund – adjustment to correct prior year miscode.	\$ 228
2. Reduction to Activity funds - adjustment to correct prior year miscode.	(1,000)
3. Reduction to DCS Grant fund - to correct prior year miscode of revenue received.	(8,403)
4. Addition to capital projects - to add Other Receivable (due from property donee for part of sewer construction).	<u>386,000</u>
	<u>\$ 376,825</u>

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

<u>Major funds:</u>	<u>Explanation</u>	<u>Amount</u>
General Fund	See item 2 under Statement of Activities	\$ (1,000)
Other governmental funds	See items 1 and 3 under Statement of Activities	<u>(8,175)</u>
		<u>\$ (9,175)</u>

DESOTO COUNTY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

9. Contingencies.

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

Litigation. – The DeSoto County School District is subject to various legal proceedings in various stages of litigation, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate the outcome or liability, if any, of the school district with respect to the various proceedings. However, the school district's management and legal counsel believe that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the school district,

10. Risk Management.

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

Participation in Public Entity Risk Pool.

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 95 school districts and one community college and covers risks of loss arising from injuries to the member's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Wells Fargo in Portland, Oregon. The funds in the trust account are used to pay any claim up to \$750,000. For a claim exceeding \$750,000, MSBAWCT has insurance which will pay the excess to the statutory amount required by the Mississippi Workers Compensation Commission Act. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

Participation in Self Insurance Trust.

The school district established a self-insurance trust in July 2004 which pays the first \$50,000 of property and liability claims against the district. An initial \$150,000 was deposited into the trust account, and is evaluated each year for the proper amount to be replaced. An additional \$82,781 was transferred to the fund during fiscal year end 2008. The

DESOTO COUNTY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2008

district had no year end liability because cash on deposit in the trust of \$100,817 (reported on the governmental funds balance sheet in other governmental funds) exceeded the unpaid claims.

11. Trust Certificates.

A trust agreement dated December 1, 2004 was executed by and between the school district and Trustmark National Bank as trustees. A second trust agreement dated July 1, 2005 was executed by and between the school district and First Security Bank as trustees.

The trust agreement with Trustmark National Bank authorized the issuance of trust certificates in the principal amount of \$20,120,000. Approximately \$19,906,041 was used to provide financing for the construction and renovation of school buildings and related facilities and equipment (the "projectI"). The remainder of approximately \$213,959 was used to pay the cost of issuance. The 2005 trust agreement with First Security Bank authorized the issuance of trust certificates in the principal amount of \$8,900,000. Approximately \$8,771,479 was used to provide financing for the construction and renovation of school buildings and related facilities and equipment (the "projectII"). The remainder of approximately \$128,522 was used to pay the cost of issuance.

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

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

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

12. Bond Referendum

In May 2008, a bond referendum was approved for DeSoto County Schools in the amount of \$60,000,000 to construct five new schools and expand two others.

DESOTO COUNTY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

13. Subsequent Events.

Subsequent to the school district's year end, the following events were noted:

- A. DeSoto County School District issued limited tax notes on July 1, 2008 for \$8,470,000.
- B. On October 1, 2008, the District issued general obligation bonds for \$15,000,000.
- C. On November 3, 2008, the Board approved the issuance of \$10,000,000 in certificates of participation.
- D. On August 4, 2008 a bid for \$12,415,000 was accepted for construction of Lewisburg Middle School and a bid for \$11,255,000 for Centerhill Middle School.
- E. On October 16, 2008, a bid was accepted for Lake Comorant High School for \$16,629,200.
- F. The District has purchased approximately \$2,400,000 in transportation equipment, and accepted bids on smaller construction projects of over \$3,000,000 from June 30, 2008 until January 5, 2009.
- G. On October 1, 2008, the District changed from the Mississippi School Board Association Workers' Compensation Trust to another insurance carrier for its workers compensation insurance.

DESOTO COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTAL INFORMATION

DESOTO COUNTY SCHOOL DISTRICT
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	\$ 53,542,238	\$ 55,021,590	\$ 56,156,894	\$ 1,479,352	\$ 1,135,304
Intermediate sources	\$ -	\$ -	\$ 8,389	-	8,389
State sources	130,260,978	130,260,978	131,910,562	-	1,649,584
Federal sources	705,000	705,000	1,106,458	-	401,458
Total Revenues	<u>184,508,216</u>	<u>185,987,568</u>	<u>189,182,303</u>	<u>1,479,352</u>	<u>3,194,735</u>
Expenditures:					
Instruction	104,491,591	105,769,066	102,592,391	(1,277,475)	3,176,675
Support services	67,846,030	67,709,740	62,690,180	136,290	5,019,560
Noninstructional services	1,152,350	1,082,180	1,484,811	70,170	(402,631)
Facilities acquisition and construction	5,250,000	5,250,000	3,404,057	-	1,845,943
Total Expenditures	<u>178,739,971</u>	<u>179,810,986</u>	<u>170,171,439</u>	<u>(1,071,015)</u>	<u>9,639,547</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>5,768,245</u>	<u>6,176,582</u>	<u>19,010,864</u>	<u>408,337</u>	<u>12,834,282</u>
Other Financing Sources (Uses):					
Insurance loss recoveries	-	-	18,196	-	18,196
Sale of transportation equipment	-	-	38,199	-	38,199
Operating transfers in	6,450,017	6,674,157	35,623	224,140	(6,638,534)
Other financing sources	-	-	304,805	-	304,805
Operating transfers out	(11,743,845)	(12,142,288)	(10,619,388)	(398,443)	1,522,900
Other financing uses	-	-	(226,039)	-	(226,039)
Total Other Financing Sources (Uses)	<u>(5,293,828)</u>	<u>(5,468,131)</u>	<u>(10,448,604)</u>	<u>(174,303)</u>	<u>(4,980,473)</u>
Net Change in Fund Balances	<u>474,417</u>	<u>708,451</u>	<u>8,562,260</u>	<u>234,034</u>	<u>7,853,809</u>
Fund Balances:					
July 1, 2007	46,652,430	46,652,430	46,652,430	-	-
Prior period adj. and reclassifications	-	-	(1,000)	-	(1,000)
July 1, 2007, as restated	<u>46,652,430</u>	<u>46,652,430</u>	<u>46,651,430</u>	<u>-</u>	<u>(1,000)</u>
Residual equity transfer in (out)	-	-	1,539,581	-	1,539,581
June 30, 2008	<u>\$ 47,126,847</u>	<u>\$ 47,360,881</u>	<u>\$ 56,753,271</u>	<u>\$ 234,034</u>	<u>\$ 9,392,390</u>

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

DESOTO COUNTY SCHOOL DISTRICT
Notes to the Required Supplementary Information
For the Year Ended June 30, 2008

Budgetary Comparison Schedule

1. Basis of Presentation.

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

2. Budget amendments and revisions.

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

SUPPLEMENTAL INFORMATION

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

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	757,869
National school lunch program	10.555	4,966,274
Total child nutrition cluster		<u>5,724,143</u>
Fresh fruit and vegetable program	10.582	49,055
Team nutrition grants	10.574	730
Total U.S. Department of Agriculture		<u>5,773,928</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.XXX	750,465
Total Federal Communications Commission		<u>750,465</u>
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	2,777,596
Career and technical education - basic grants to states	84.048	190,431
Safe and drug-free schools and communities - state grants	84.186	112,714
State grants for innovative programs	84.298	45,684
English language acquisition grants	84.365	160,865
Improving teacher quality - state grants	84.367	916,301
Grants for state assessments and related activities	84.369	12,680
Hurricane education recovery act programs	84.938	2,829
Total		<u>4,219,100</u>
Special education cluster:		
Special education - grants to states	84.027	6,420,716
Special education - preschool grants	84.173	173,527
Total special education cluster		<u>6,594,243</u>
Total U.S. Department of Education		<u>10,813,343</u>
Total for All Federal Awards		<u>\$ 17,337,736</u>

NOTES TO SCHEDULE

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

DESOTO COUNTY SCHOOL DISTRICT
Schedule of Instructional, Administrative and Other Expenditures – Governmental Funds
For the Year Ended June 30, 2008

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 144,581,565	\$ 112,778,986	\$ 5,133,159	\$ 8,888,138	\$ 17,781,282
Other	74,737,619	17,220,741	1,458,078	489,370	55,569,430
Total	\$ 219,319,184	\$ 129,999,727	\$ 6,591,237	\$ 9,377,508	\$ 73,350,712
 Total number of students*	 29,650	 29,650	 29,650	 29,650	 29,650
 Cost per student	 \$ 7,397	 \$ 4,385	 \$ 222	 \$ 316	 \$ 2,474

For the 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 function codes)

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

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

OTHER SUPPLEMENTAL INFORMATION

DESOTO COUNTY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
General Fund –Last Four Years

“UNAUDITED”

	<u>2008</u>	<u>2007*</u>	<u>2006*</u>	<u>2005*</u>
Revenues:				
Local sources	\$ 56,156,894	\$ 51,832,036	\$ 48,220,559	\$ 42,299,578
Intermediate sources	8,389	-	-	-
State sources	131,910,562	108,889,670	98,774,837	86,874,499
Federal sources	1,106,458	898,298	604,530	354,463
Total Revenues	<u>189,182,303</u>	<u>161,620,004</u>	<u>147,599,926</u>	<u>129,528,540</u>
Expenditures:				
Instruction	102,592,391	90,557,091	84,059,497	73,546,751
Support services	62,690,180	54,115,583	49,570,368	45,706,512
Noninstructional services	1,484,811	1,249,233	1,316,524	1,155,158
Facilities acquisition and construction	3,404,057	1,745,953	654,277	1,297,676
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Other	-	-	-	-
Total Expenditures	<u>170,171,439</u>	<u>147,667,860</u>	<u>135,600,666</u>	<u>121,706,097</u>
Excess (Deficiency) of Revenues over Expenditures	<u>19,010,864</u>	<u>13,952,144</u>	<u>11,999,260</u>	<u>7,822,443</u>
Other Financing Sources (Uses):				
Insurance loss recoveries	18,196	62,983	16,834	21,975
Sale of transportation equipment	38,199	50,732	23,542	13,775
Operating transfers in	35,623	71,545	1,440,297	1,607,216
Other financing sources	304,805	336,173	286,123	245,682
Operating transfers out	(10,619,388)	(4,117,334)	(3,664,171)	(12,955,723)
Other financing uses	(226,039)	(259,295)	(205,595)	(243,821)
Total Other Financing Sources (Uses)	<u>(10,448,604)</u>	<u>(3,855,196)</u>	<u>(2,102,970)</u>	<u>(11,310,896)</u>
Net Change in Fund Balances	<u>8,562,260</u>	<u>10,096,948</u>	<u>9,896,290</u>	<u>(3,488,453)</u>
Fund Balances:				
July 1	46,652,430	36,555,482	26,659,192	30,147,644
Prior period adjustments	(1,000)	-	-	-
July 1, as restated	<u>46,651,430</u>	<u>36,555,482</u>	<u>26,659,192</u>	<u>30,147,644</u>
Residual equity transfer in (out)	<u>1,539,581</u>	<u>-</u>	<u>-</u>	<u>-</u>
Junc 30 Fund Balanc	<u>\$ 56,753,271</u>	<u>\$ 46,652,430</u>	<u>\$ 36,555,482</u>	<u>\$ 26,659,191</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

DESOTO COUNTY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Funds –Last Four Years

“UNAUDITED”

	<u>2008</u>	<u>2007*</u>	<u>2006*</u>	<u>2005*</u>
Revenues:				
Local sources	\$ 79,497,182	\$ 72,827,778	\$ 67,657,789	\$ 58,952,424
Intermediate sources	8,389	-	-	-
State sources	134,652,371	111,996,359	101,217,558	89,160,897
Federal sources	17,593,805	14,992,086	14,027,739	11,397,901
Total Revenues	<u>231,751,747</u>	<u>199,816,223</u>	<u>182,903,086</u>	<u>159,511,222</u>
Expenditures:				
Instruction	112,128,808	100,302,517	92,494,988	80,966,877
Support services	71,309,178	66,533,468	59,498,216	52,430,444
Noninstructional services	10,829,690	10,735,772	8,968,934	7,209,370
Facilities acquisition and construction	5,500,404	18,666,892	101,633,978	42,243,057
Debt service:				
Principal	12,275,000	10,155,000	8,725,000	11,630,000
Interest	7,260,194	6,912,291	6,503,934	2,896,040
Other	15,910	248,884	160,150	929,636
Total Expenditures	<u>219,319,184</u>	<u>213,554,824</u>	<u>277,985,200</u>	<u>198,305,424</u>
Excess (Deficiency) of Revenues over Expenditures	<u>12,432,563</u>	<u>(13,738,601)</u>	<u>(95,082,114)</u>	<u>(38,794,202)</u>
Other Financing Sources (Uses):				
Proceeds of general obligation bonds	-	24,530,000	-	115,000,000
Proceeds of certificates of participation	-	-	8,900,000	20,120,000
Premium on bonds issued	-	854,249	24,262	1,008,534
Insurance loss recoveries	18,196	64,982	20,469	26,434
Sale of transportation equipment	38,199	50,732	23,542	13,775
Operating transfers in	11,795,805	5,559,973	7,249,244	15,047,817
Other financing sources	304,805	337,575	286,123	245,682
Operating transfers out	(11,795,805)	(5,559,973)	(7,249,244)	(15,047,817)
Other financing uses	(304,938)	(336,173)	(281,586)	(303,823)
Total Other Financing Sources (Uses)	<u>56,262</u>	<u>25,501,365</u>	<u>8,972,810</u>	<u>136,110,602</u>
Net Change in Fund Balances	<u>12,488,825</u>	<u>11,762,764</u>	<u>(86,109,304)</u>	<u>97,316,400</u>
Fund Balances:				
July 1	64,579,752	52,795,610	138,860,968	41,559,749
Prior period adjustments	(9,175)	(7,874)	(7,878)	-
July 1, as restated	<u>64,570,577</u>	<u>52,787,736</u>	<u>138,853,090</u>	<u>41,559,749</u>
Increase (Decrease) in reserve for inventory	<u>(23,901)</u>	<u>29,252</u>	<u>51,824</u>	<u>(15,181)</u>
June 30 Fund Balance	<u>\$ 77,035,501</u>	<u>\$ 64,579,752</u>	<u>\$ 52,795,610</u>	<u>\$ 138,860,968</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

DESOTO COUNTY SCHOOL DISTRICT
REPORTS ON COMPLIANCE AND INTERNAL CONTROL



INDEPENDENT AUDITORS' 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
DeSoto County School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the DeSoto County School District as of and for the year ended June 30, 2008, which collectively comprise the DeSoto County School District's basic financial statements and have issued our report thereon dated January 21, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or

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material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC

Certified Public Accountants

January 21, 2009



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INDEPENDENT AUDITORS' 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
DeSoto County School District

Compliance

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

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

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

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Internal Control Over Compliance

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

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

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

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

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

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC

Certified Public Accountants

January 21, 2009



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Superintendent and School Board
DeSoto County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the DeSoto County School District as of and for the year ended June 30, 2008, which collectively comprise DeSoto County School District's basic financial statements and have issued our report thereon dated January 21, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported no 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.

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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.

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC

Certified Public Accountants

January 21, 2009

DESOTO COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

DESOTO COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For The Year Ended June 30, 2008

Section 1: Summary of Auditors' 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 deficiencies identified that are not considered to be material weaknesses? No

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 deficiencies identified that are not considered to be material weaknesses? None Reported

6. Any audit finding(s) reported as required by section ____ .510(a) of Circular A-133? No

7. Federal programs identified as major programs:
 - a. Special education cluster:
CFDA#84.027
CFDA#84.173

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