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LOUISVILLE MUNICIPAL SCHOOL DISTRICT

AUDIT REPORT

JUNE 30, 2008

LOUISVILLE MUNICIPAL SCHOOL DISTRICT
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LOUISVILLE MUNICIPAL SCHOOL DISTRICT

FINANCIAL AUDIT REPORT



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

Superintendent and School Board
Louisville Municipal School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Louisville Municipal School District as of and for the year ended June 30, 2008, which collectively comprise the Louisville Municipal School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Louisville Municipal 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 Louisville Municipal 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 June 11, 2009, on our consideration of the Louisville Municipal School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Managements Discussion and Analysis on pages 5 through 13 and the Budgetary Comparison Schedule and corresponding notes on pages 40 through 42 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 Louisville Municipal School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. In addition, the Schedule of Instructional, Administrative and Other Expenditures – Governmental Funds is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Watkins, Ward and Stafford, PLLC
Louisville, Mississippi
June 11, 2009

Watkins, Ward and Stafford, PLLC

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

LOUISVILLE MUNICIPAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

The discussion and analysis of Louisville Municipal 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. This report will present certain comparative information between fiscal year 2007 and 2008.

The Louisville Municipal School District consists of the following schools: Fair Elementary School (K-3), Louisville Elementary School (4-6), Eiland Middle School (7-8), Louisville High School (9-12), Nanih Waiya Attendance Center (K-12), Noxapater Attendance Center (K-12), and the Winston-Louisville Vocational Center. As of the end of September 2007, the total enrollment was 2,717 (down 156 from September 2006); the district had 446 regular staff members (up 10 from September 2006.)

FINANCIAL HIGHLIGHTS

- Total net assets increased \$918,938, which represents a 7% increase from fiscal year 2007. The Mississippi State Legislature fully funded the Mississippi Adequate Education Program which gave us the funds needed to operate for the year. However, to keep a healthy reserve in a very unstable economy, the district saw a year of very controlled spending practices and careful review and use of all resources when fulfilling needs of schools during FY 2008.
- General revenues account for \$19,113,436 in revenue, or 78% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$5,390,711 or 22% of total revenues.
- The District had \$23,592,082 in expenses; only \$5,390,711 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$19,113,436 were adequate to provide for these programs.

- Among major funds, the General Fund had \$18,769,164 in revenues and \$17,861,256 in expenditures. The General Fund's fund balance increased \$611,687. The increase was due to controlled expenditures for supplies and equipment, a mild winter with stable utility costs and a delay in using some funds set aside for facility repairs and renovations. Student activity fund revenues are being affected negatively by changes in regulations of types of items that can be sold in vending machines.
- Capital assets, net of accumulated depreciation, decreased by \$51,591. During FY 2008, the school district added items to the inventory totaling \$372,662 and deleted items from the inventory totaling \$272,693. The accumulated depreciation for FY 2008 was a net increase of \$159,563 causing a further decrease when showing capital assets net of accumulated depreciation.
- Long-term debt was decreased by \$19,305. The decrease is the net of a payment of \$22,462 on the EPA Asbestos Loans (interest free) leaving a loans payable balance of \$71,402 and the net increase in Compensated Absences payments/increases of \$3,157.

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 15-16 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 18 and 20, 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 17 - 19 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 Statement of Fiduciary Net Assets and in a Statement of Changes in Fiduciary Net Assets on pages 21 and 22, respectively.

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 23-38 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 and each additional major Special Revenue fund. This required supplementary information can be found on pages 40-42 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on pages 44-45 of this report.

A schedule of instructional, administrative and other expenditures – governmental funds can be found on page 46 of this report. Also a statement of revenues, expenditures and changes in fund balances – General Fund and All Governmental Funds for the last four years can be located on pages 48 and 49, respectively. These reports are required by the Mississippi Department of Education.

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 \$13,683,048 as of June 30, 2008.

A large portion (\$6,233,062) of the District's net assets (46%) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, and furniture and equipment) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

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

The following table presents a summary of the District's net assets for the fiscal years 2007 and 2008.

Table 1
Condensed Statement of Net Assets

	2007	2008	Total
	<u>Amount</u>	<u>Amount</u>	<u>% Change</u>
Current assets	\$ 8,058,839	\$ 9,105,566	13.0%
Capital assets, net	<u>6,284,653</u>	<u>6,233,062</u>	(.8)%
Total assets	<u>\$14,343,492</u>	<u>\$15,338,628</u>	6.9%
Current liabilities	\$1,325,555	\$ 1,421,058	7.2%
Long-term debt outstanding	<u>253,827</u>	<u>234,522</u>	(7.6)%
Total liabilities	<u>\$ 1,579,382</u>	<u>\$ 1,655,580</u>	4.8%
Net assets:			
Invested in capital assets, net of related debt	\$ 6,284,653	\$ 6,233,062	(.8)%
Restricted	3,046,378	3,385,915	11.1%
Unrestricted	<u>3,433,079</u>	<u>4,064,071</u>	18.4%
Total net assets	<u>\$ 12,764,110</u>	<u>\$ 13,683,048</u>	7.2%

Table 2
Change(s) in Net Assets

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2008 were \$24,504,147. The total cost of all programs and services was \$ 23,592,082. The following table presents a summary of the changes in net assets for the fiscal years 2007 and 2008.

	Change in Net Assets		Percentage
	June 30, 2007	June 30, 2008	Change
Revenues:			
Program revenues:			
Charges for services	\$ 849,792	\$ 981,961	15.6%
Operating grants and contributions	4,852,487	4,408,750	(9.1)%
General revenues:			
Property taxes	3,910,867	4,342,361	11.0%
Grants and contributions not restricted	12,769,762	13,824,984	8.3%
Other	<u>635,279</u>	<u>946,091</u>	48.9%
Total revenues	<u>23,018,187</u>	<u>24,504,147</u>	6.5%
Expenses:			
Instruction	13,124,390	13,800,597	5.2%
Support services	7,934,727	7,993,295	.7%
Non-instructional	1,612,366	1,690,987	4.9%
Sixteenth section	93,209	107,203	15.0%
Interest and other expense on long-term liabilities	<u>0</u>	<u>0</u>	.0%
Total expenses	<u>22,764,692</u>	<u>23,592,082</u>	3.6%
Increase (Decrease) in net assets	<u>253,495</u>	<u>912,065</u>	259.8%
Net Assets, July 1	<u>12,519,522</u>	<u>12,764,110</u>	2.0%
Prior Period Adjustments	<u>(8,907)</u>	<u>6,873</u>	177.2%
Net Assets, June 30	<u>\$ 12,764,110</u>	<u>\$ 13,683,048</u>	7.2%

The following are significant current year transactions that have had an impact on the Statement of Activities. Teacher salaries increased an average of 4% due to state mandated raises and increment increases. Other staff also received a 4% salary increase. The required contribution rate for the state retirement system increased from 11.30% to 11.85%.

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

Table 3
Net Cost of Governmental Activities

	Total Expenses			Net (Expense) Revenue		
	2007	2008	% Change	2007	2008	% Change
Instruction	\$13,124,390	\$13,800,597	5.2%	\$ (10,427,162)	\$(11,357,460)	8.9%
Support services	7,934,727	7,993,295	.7%	(6,521,855)	(6,662,558)	2.2%
Non-instructional	1,612,366	1,690,987	4.9%	(49,433)	(140,370)	184.0%
Sixteenth section	93,209	107,203	15.0%	(63,963)	(40,983)	(35.9)%
Interest on long-term Liabilities	0	0	0%	0	0	0%
Total expenses	<u>\$22,764,692</u>	<u>23,592,082</u>	3.6%	<u>\$ (17,062,413)</u>	<u>\$(18,201,371)</u>	6.7%

- Net cost of governmental activities (\$18,201,371), was financed by general revenue, which is primarily made up of property taxes (\$ 4,342,361) and state revenue (\$13,599,657).
- Investment earnings accounted for \$406,945 of funding. The district was in the first year of a three year depository agreement with Renasant Bank with a minimum rate of 4.75% interest paid on deposited funds.

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 \$7,706,971, an increase of \$ 951,224 due primarily to the full funding of MAEP by the Mississippi Legislature, efficient use of staff and resources and higher interest rates. \$ 6,893,924 or 89% 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 \$ 813,047 or 11% is reserved or designated to indicate that it is not available for spending because it has already been committed. \$2,808,063 of the unreserved/undesignated fund balance belongs to the Sixteenth Section Interest Fund; these funds can be transferred to general funds and used for operating expenditures at the discretion of the Board. Sixteenth Section Principal Fund has an ending balance of \$208,882; these funds can only be invested or loaned to the District. Forestry Escrow's balance of \$216,952 is committed to Sixteenth Section property improvements as approved by the District Forestry Commission. \$11,318 remains in debt service funds and Unemployment Compensation has an ending balance of \$73,233.

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 \$ 611,687, a result of a good interest rate for depository funds, conservative spending and a transfer into the Building Improvement funds from Sixteenth Section Interest. The District is making a conscious effort to keep a healthy fund balance in light of an unstable economy and questionable revenue collections. The fund balance of Other Governmental Funds showed an increase of \$4,713.

BUDGETARY HIGHLIGHTS

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

- Budget amounts for revenue from general sources were increased to reflect higher interest rates, transfers from special revenue sources and healthy school activity funds. Expenditures were decreases to closer reflect actual expenditures;
- Budget amounts for revenue from state sources were decreased to reflect reductions in reimbursed teacher units, EEF funds and Vocational Education funds. Expenditures were amended to reflect these reductions.
- Budgeted amounts for revenue from federal sources was decreased due to the end of the 21st Century grant and reductions in other federal funds. Budget amounts for the related expenditures were approved and expended.

A schedule showing the original and final budget amounts compared to the District's actual financial activity for the General Fund and each major special revenue 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 \$13,361,546, including school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$107,972 from the previous year. This amount reflects net increases in mobile equipment and furniture and equipment. Total accumulated depreciation as of June 30, 2008 was \$7,128,484 and total depreciation expense for the year was \$404,369, resulting in total net assets of \$6,233,062.

**Table 4
Capital Assets**

	<u>Capital Assets, Net of Depreciation</u>		<u>Total</u>
	<u>2007</u>	<u>2008</u>	<u>Percentage Change</u> <u>2008-2007</u>
Land	\$ 259,320	259,320	0%
Buildings	4,491,988	4,359,626	(2.9)%
Building Improvements	90,395	85,432	(5.5)%
Mobile Equipment	1,284,962	1,354,932	5.4%
Furniture & Equipment	157,988	173,752	10.0%
Total	<u>\$ 6,284,653</u>	<u>6,233,062</u>	<u>(.8)%</u>

Debt Administration. At June 30, 2008, the District had \$ 256,985 in long-term debt outstanding, of which \$ 22,463 is due within one year.

Since the District has not had any bond issues, it is non-rated.

**Table 5
Outstanding Long-Term Debt at June 30, 2008**

	<u>Outstanding Long-term Debt</u>		<u>Total</u>
	<u>2007</u>	<u>2008</u>	<u>Percentage Change</u> <u>2008-2007</u>
EPA Asbestos Loans	\$ 93,864	71,402	(23.9)%
Compensated Absences payable	182,426	185,583	1.7%
Total	<u>\$ 276,290</u>	<u>256,985</u>	<u>(7.0)%</u>

Additional information of the District's long-term debt can be found in Note 6 on page 34 of this report.

CURRENT ISSUES

The Louisville Municipal School District is financially stable. The District is proud of its community support of the public schools. As a consolidated school district, the District is pleased with the good working relationships it has with the City of Louisville and the Winston County governments.

The District has committed itself to financial excellence for many years. The millage has actually decreased from 46.00 mills in FY 1991-1992 to 44.85 for FY 2007-2008. This includes a levy of 2.18 mills for fees charged by the City of Louisville (4.25% of taxes collected) and Winston County (5% of taxes collected) to collect school taxes. The District is aware of Winston County's high unemployment rate and the hard economic times for many people residing in the city and county and tries to keep the millage rate as low as possible while maintaining excellence in the public schools.

In addition, the District system of financial planning, budgeting and internal financial controls is well regarded. Over the past 10 years, the District has had a trend of declining enrollment and ADA. Because of this trend and the current unstable state and federal funding climate, the District has been very conservative staffing and in incurring debt. In FY 2008, the only debts of the District are two interest free EPA Asbestos Loans which will be paid off in 2012. In FY 2009 District will borrow \$3,300,000 in 3 Mill 15 Year notes to have the funding for some much needed renovation and repairs to existing facilities. Strategic planning will enable the District to use the funds conservatively to accomplish as much as possible in the needed repairs and renovations.

With the recent economic developments, there is a strong possibility that student enrollment will decline over the next year. The District will closely monitor the budget during the next fiscal year and future years in planning funding and staffing needs.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Louisville Municipal School District, P. O. Box 909, 112 South Columbus Avenue, Louisville, Mississippi, 39339.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

FINANCIAL STATEMENTS

**Louisville Municipal School District
Statement of Net Assets
June 30, 2008**

Exhibit A

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 7,349,528
Investments	994,842
Due from other governments	494,383
Other receivables, net	17,301
Inventories and prepaid items	40,630
Restricted assets	208,882
Capital assets, non-depreciable:	
Land	259,320
Capital assets, net of accumulated depreciation:	
Buildings	4,359,626
Improvements other than buildings	85,432
Mobile equipment	1,354,932
Furniture and equipment	<u>173,752</u>
Total Assets	<u>15,338,628</u>
Liabilities	
Accounts payable and accrued liabilities	1,371,458
Unearned revenue	27,137
Long-term liabilities, due within one year	
Non-capital related liabilities	22,463
Long-term liabilities, due beyond one year	
Non-capital related liabilities	<u>234,522</u>
Total Liabilities	<u>1,655,580</u>
Net Assets	
Invested in capital assets, net of related debt	6,233,062
Restricted net assets:	
Expendable:	
School-based activities	2,875,530
Debt service	11,318
Forestry improvements	216,952
Unemployment benefits	73,233
Non-expendable:	
Sixteenth section	208,882
Unrestricted	<u>4,064,071</u>
Total Net Assets	<u>\$ 13,683,048</u>

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

Louisville Municipal School District
Statement of Activities
For the Year Ended June 30, 2008

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental Activities:					
Instruction	\$ 13,800,597	570,519	1,872,618		(11,357,480)
Support services	7,993,295		1,330,737		(6,662,558)
Non-instructional	1,690,987	345,222	1,205,395		(140,370)
Sixteenth section	107,203	68,220			(40,983)
Total Governmental Activities	\$ 23,592,082	961,961	4,408,750	0	(18,201,371)
General Revenues:					
Taxes:					
					4,342,334
					27
Unrestricted grants and contributions:					
					13,599,657
					225,327
					406,945
					446,822
					92,324
					<u>19,113,436</u>
					<u>912,065</u>
					12,764,110
					<u>6,873</u>
					<u>12,770,983</u>
					<u>\$ 13,683,048</u>

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

Louisville Municipal
Balance Sheet - Governmental Funds
June 30, 2008

Exhibit C

	Major Funds			Total Governmental Funds
	General Fund	Sixteenth Section Interest Fund	Other Governmental Funds	
ASSETS				
Cash and cash equivalents	\$ 5,069,496	1,930,952	506,333	7,506,781
Investments		898,652	147,819	1,046,471
Due from other governments	251,536		242,847	494,383
Other receivables, net		16,265		16,265
Due from other funds	95,803			95,803
Inventories and prepaid items	3		40,627	40,630
Total Assets	\$ 5,416,838	2,845,869	937,626	9,200,333
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 1,095,782	21,733	253,943	1,371,458
Due to other funds			94,767	94,767
Unearned revenue		16,073	11,064	27,137
Total Liabilities	1,095,782	37,806	359,774	1,493,362
Fund Balances:				
Reserved for:				
Inventory			40,627	40,627
Prepaid items	3			3
Ad valorem	273,350			273,350
Unemployment benefits			73,233	73,233
Forestry improvement purposes			216,952	216,952
Permanent fund purposes			208,882	208,882
Undesignated, reported in:				
General Fund	4,047,703			4,047,703
Special Revenue Funds		2,808,063	26,840	2,834,903
Debt Service Funds			11,318	11,318
Total Fund Balances	4,321,056	2,808,063	577,852	7,706,971
Total Liabilities and Fund Balances	\$ 5,416,838	2,845,869	937,626	9,200,333

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

Louisville Municipal School District
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2008

Exhibit C-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 7,706,971
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 \$ 7,128,484.	6,233,062
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(256,985)
Total Net Assets - Governmental Activities	<u>\$ 13,683,048</u>

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

**Louisville Municipal School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2008**

Exhibit D

	Major Funds			Total Governmental Funds
	General Fund	Sixteenth Section Interest Fund	Other Governmental Funds	
Revenues:				
Local sources	\$ 5,182,543		395,674	5,578,217
State sources	13,269,855		1,085,107	14,354,962
Federal sources	316,766		3,562,005	3,878,771
Sixteenth section sources		602,183	90,014	692,197
Total Revenues	18,769,164	602,183	5,132,800	24,504,147
Expenditures:				
Instruction	11,172,056		2,542,471	13,714,527
Support services	6,633,207		1,523,615	8,156,822
Noninstructional services	16,671		1,613,842	1,630,513
Sixteenth section	16,860	17,359	72,919	107,138
Debt service:				
Principal	22,462		-	22,462
Total Expenditures	17,861,256	17,359	5,752,847	23,631,462
Excess (Deficiency) of Revenues over Expenditures	907,908	584,824	(620,047)	872,685
Other Financing Sources (Uses):				
Insurance loss recoveries	85,440			85,440
Sale of transportation equipment	6,164			6,164
Operating transfers in	270,103		657,928	928,031
Operating transfers out	(657,928)	(250,000)	(20,103)	(928,031)
Total Other Financing Sources (Uses)	(296,221)	(250,000)	637,825	91,604
Net Change in Fund Balances	611,687	334,824	17,778	964,289
Fund Balances:				
July 1, 2007	3,709,369	2,473,239	573,139	6,755,747
Increase (Decrease) in reserve for inventory			(13,065)	(13,065)
June 30, 2008	\$ 4,321,056	2,808,063	577,852	7,706,971

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

**Louisville Municipal School District
 Reconciliation of the Governmental Funds Statement of Revenues,
 Expenditures and Changes in Fund Balances to the Statement of Activities
 For the Year Ended June 30, 2008**

Exhibit D-1

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ 964,289
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 purchase amounted to \$ 372,662 and the depreciation expense amounted to \$ 404,369.	(31,707)
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.	22,462
3. 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.	(26,757)
4. Increase (decrease) in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are (decreased) increased in the Statement of Activities.	(13,065)
5. 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	(3,157)
Change in Net Assets of Governmental Activities	\$ <u><u>912,065</u></u>

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

**Louisville Municipal School District
Statement of Changes in Fiduciary Net Assets
June 30, 2008**

Exhibit F

	<u>Private-Purpose Trust Funds</u>
Additions	
Interest on investments	\$ 2,402
Contributions and donations from private sources	<u>6,850</u>
Total Additions	<u>9,252</u>
Deductions	
Scholarships awarded	<u>13,260</u>
Total Deductions	<u>13,260</u>
Change in Net Assets	<u>(4,008)</u>
Net Assets	
July 1, 2007	<u>67,442</u>
June 30, 2008	<u>\$ <u>63,434</u></u>

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

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

1. Summary of Significant Accounting Policies.

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

A. Financial Reporting Entity.

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

B. Basis of Presentation.

Government-wide Financial Statements:

The Statement of Net Assets and 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.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

B. Basis of Presentation (Continued):

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

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

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

Fund Financial Statements:

Separate financial statements are provided for governmental, 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.

Sixteenth Section Interest Fund – This is the school district's fund that accumulates sixteenth section revenues that are available to supplement the district's operating activities.

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

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

B. Basis of Presentation (Continued):

Additionally, the school district reports the following fund types:

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.

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.

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

FIDUCIARY FUNDS

Private-purpose Trust Funds – Private-purpose trust funds are used to report all trust arrangements, other than those properly reported elsewhere, under which the principal and income benefit individuals, private organizations or other governments.

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

C. Measurement Focus and Basis of Accounting.

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

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

C. Measurement Focus and Basis of Accounting (Continued).

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

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

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

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

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

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

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

D. Account Classifications.

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

E. Encumbrances.

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

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

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

1. Cash, Cash equivalents and Investments

Cash and cash equivalents

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

Investments.

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

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

Investments for the district are reported at fair market value.

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 the 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.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and governmental fund financial statements.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

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.

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	\$ 0	0
Buildings	50,000	40 years
Building improvements	25,000	20 years
Improvements other than buildings	25,000	20 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

(*) The threshold amount will correspond with the amounts for the asset classifications, as listed. See Note 5 for details.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

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 Expenses, 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 6 for details.

9. Fund Equity.

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

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved 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 prepaid items – An account that represents a portion of the fund balance which indicates that prepaid items do not represent available spendable resources even though they are a component of net current assets.

Reserved for ad valorem – An account used to record the ad valorem taxes collected in excess of legal limitations for the current fiscal year.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

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

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

Reserved for permanent fund purposes – An account that represents a portion of the fund balance that is legally restricted for improving sixteenth section forest lands.

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 collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

Investments. Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to invest surplus funds in the types of investments authorized by Section 27-105-33(d) and (e), Miss. Code Ann. (1972). This section permits the following types of investments: (a) certificates of deposits and interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, 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.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

2. Cash and Cash Equivalents and Investments (Continued):

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 \$7,506,781 and \$168,983, respectively. The carrying amount of deposits reported in the government-wide financial statements was: cash and cash equivalents - \$7,349,528 and restricted assets - \$157,253. The restricted assets of \$208,882 represent the cash balance and investment balance of the Sixteenth Section Principal fund (Permanent Fund) of \$157,253 and \$51,629 respectively, which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$9,061,720.

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 \$9,061,720 was exposed to custodial credit risk.

Investments.

As of June 30, 2008, the district had the following investments.

Investment Type	Maturities (in years)	Fair Value	Rating
Pioneer Treasury Reserves	Less than 1	\$ 15	Not rated
Federated Governmental Obligation Mutual fund	Less than 1	<u>1,046,456</u>	Not rated
Total Investments		<u>\$ 1,046,471</u>	

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

Credit Risk. State law limits investments to those prescribed in Section 27-105-3(d) and 27-105-33(e), Miss. Code Ann. (1972). The district does not have a formal investment policy that would further limit its investment choices or one that addresses credit risk.

Custodial Credit Risk – Investments. Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk. As of June 30, 2008, the district did not have any investments to which this would apply.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

3. Interfund Receivables, Payables and Transfers.

The following is a summary of interfund transactions and balances:

A. Due From/to Other Funds.

Receivable Fund	Payable Fund	Amount
General Fund	Other Governmental Funds	\$ 94,767
	Fiduciary Funds	<u>1,036</u>
Total		<u>\$ 95,803</u>

All interfund loans from the General Fund were made to offset deficit cash balances.

B. Interfund Transfers

Transfer Out	Transfer In	Amount
General Fund	Other governmental funds	\$ 657,928
Sixteenth section interest fund	General fund	250,000
Other governmental funds	General fund	<u>20,103</u>
Total		<u>\$ 928,031</u>

Transfers in and out were for indirect costs and operating costs. The majority of the transfers were for operating costs.

4. Restricted Assets.

The restricted assets represent the cash balance and investment balance totaling \$157,253 and \$51,629, respectively, of the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

5. Capital Assets.

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

	Balance 7/1/2007	Additions	Retirements	Adjustments	Balance 6/30/2008
<u>Non-depreciable capital assets:</u>					
Land	\$ 259,320				259,320
Total non-depreciable capital assets	<u>259,320</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>259,320</u>
<u>Depreciable capital assets:</u>					
Buildings	8,413,860				8,413,860
Improvements other than buildings	124,076				124,076
Mobile equipment	3,820,041	308,300	(266,993)		3,861,348
Furniture and equipment	636,277	64,362	(5,700)	8,003	702,942
Total depreciable capital assets	<u>12,994,254</u>	<u>372,662</u>	<u>(272,693)</u>	<u>8,003</u>	<u>13,102,226</u>
<u>Less accumulated depreciation for:</u>					
Buildings	3,921,872	132,362			4,054,234
Improvements other than buildings	33,681	4,963			38,644
Mobile equipment	2,535,079	211,630	(240,293)		2,506,416
Furniture and equipment	478,289	55,414	(5,643)	1,130	529,190
	<u>6,968,921</u>	<u>404,369</u>	<u>(245,936)</u>	<u>1,130</u>	<u>7,128,484</u>
Total depreciable capital assets, net	<u>6,025,333</u>	<u>(31,707)</u>	<u>(26,757)</u>	<u>6,873</u>	<u>5,973,742</u>
Governmental activities capital assets, net	<u>\$ 6,284,653</u>	<u>(31,707)</u>	<u>(26,757)</u>	<u>6,873</u>	<u>6,233,062</u>

Adjustments: The amounts reported in the adjustments column represents an asset erroneously left off the capital asset schedule at June 30, 2007, net of accumulated depreciation.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

Depreciation expense was charged to the following governmental functions:

Governmental activities:

Instruction	\$ 136,594
Support services	222,418
Non-instructional	<u>45,357</u>
 Total Depreciation Expense	 \$ <u><u>404,369</u></u>

6. Long-term Liabilities:

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

	Balance <u>7/1/2007</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>6/30/2008</u>	Amounts due within one year
A. Other loans payable	93,864		(22,462)	71,402	22,463
B. Compensated absences payable	<u>182,426</u>	14,036	(10,879)	<u>185,583</u>	<u>-</u>
 Total	 \$ <u><u>276,290</u></u>	<u>14,036</u>	<u>(33,341)</u>	<u><u>256,985</u></u>	<u><u>22,463</u></u>

A. Other loans payable.

The school district has issued debt instruments granted under the authority of Section 37-7-302, Miss. Code Ann. (1972).

<u>Description</u>	<u>Interest Rate(s)</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
EPA Asbestos loan	N/A	4/17/1992	11/30/2011	\$ 129,900	18,042
EPA Asbestos loan	N/A	4/17/1992	5/30/2012	<u>274,425</u>	<u>53,360</u>
 Total				 \$ <u><u>404,325</u></u>	<u><u>71,402</u></u>

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

Other loans issued on April 17, 1992

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 22,463	-	22,463
2010	22,462	-	22,462
2011	18,854	-	18,854
2012	<u>7,623</u>	<u>-</u>	<u>7,623</u>
Total	<u>71,402</u>	<u>-</u>	<u>71,402</u>

This debt will be retired from the District Maintenance Fund.

B. Compensated absences payable.

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

7. 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 employer's 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 \$1,539,240, \$1,418,680, and \$1,363,347, respectively, which equaled the required contributions for each year.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

8. Sixteenth Section Lands.

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

<u>Year Ending</u>	<u>Amount</u>
2009	\$ 50,143
2010	42,221
2011	22,603
2012	16,519
2013	15,663
2014-2018	72,870
2019-2023	54,181
2024-2028	41,872
2029-2033	17,454
Thereafter	<u>60</u>
 Total	 \$ <u><u>333,586</u></u>

9. 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. Adjustment to correct capital asset schedule for capital asset erroneously left off schedule at June 30, 2007, net of accumulated depreciation.	\$ <u>6,873</u>
Total	\$ <u><u>6,873</u></u>

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

10. 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.

11. Subsequent Events.

On June 10, 2008, the board approved a resolution to borrow \$3,300,000 from Trustmark Bank for 15 years at an annual rate of interest of 3.71%. These funds are to be used to renovate and upgrade district facilities and will be financed with ad valorem taxes collected from taxpayers (3 mill note). The district did not begin drawing these funds until August 2008.

On May 8, 2008, the board approved the purchase of four school buses for \$69,185 each or a total of \$276,740. These buses were not purchased until the 08-09 fiscal year.

On August 14, 2008, the board approved a bid of \$82,000 for storm damage repairs to the school bus shop.

On November 11, 2008, the board approved a bid of \$66,820 for the demolition of the old gymnasium building at the Noxapater Attendance Center.

On November 11, 2008, the board approved a bid of \$133,700 for modifications to the Winston-Louisville Career & Technology Center.

On January 13, 2009, the board approved a bid of \$468,045 for repairs and improvements to R.E. Hinze Stadium on the campus of Louisville High School.

On January 20, 2009, the board approved a bid of \$482,453 for a new concession stand building and renovations to the R.E. Hinze Stadium on the campus of Louisville High school.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

12. Risk Management.

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

Participation in Public Entity Risk Pool.

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 95 school districts and one community college and covers risks of loss arising from injuries to the members' 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.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

Louisville Municipal 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	\$ 4,812,342	5,085,509	5,182,543	273,167	97,034
State sources	13,887,577	13,339,057	13,269,855	(548,520)	(69,202)
Federal sources	371,277	316,791	316,766	(54,486)	(25)
Total Revenues	<u>19,071,196</u>	<u>18,741,357</u>	<u>18,769,164</u>	<u>(329,839)</u>	<u>27,807</u>
Expenditures:					
Instruction	11,571,972	11,197,178	11,172,056	374,794	25,122
Support services	7,224,656	7,074,400	6,633,207	150,256	441,193
Noninstructional services		16,776	18,671	(16,776)	105
Sixteenth section	35,392	16,861	16,860	18,531	1
Debt service:				0	0
Principal	22,464	22,464	22,462	0	2
Total Expenditures	<u>18,854,484</u>	<u>18,327,679</u>	<u>17,861,256</u>	<u>526,805</u>	<u>466,423</u>
Excess (Deficiency) of Revenues over Expenditures	<u>216,712</u>	<u>413,678</u>	<u>907,908</u>	<u>196,966</u>	<u>494,230</u>
Other Financing Sources (Uses):					
Insurance loss recoveries		85,440	85,440	85,440	0
Sale of transportation equipment		6,164	6,164	6,164	0
Operating transfers in	1,827,400	403,081	270,103	(1,424,319)	(132,978)
Operating transfers out	<u>(2,586,937)</u>	<u>(791,702)</u>	<u>(657,928)</u>	<u>1,795,235</u>	<u>133,774</u>
Total Other Financing Sources (Uses)	<u>(759,537)</u>	<u>(297,017)</u>	<u>(296,221)</u>	<u>462,520</u>	<u>796</u>
Net Change in Fund Balances	<u>(542,825)</u>	<u>116,661</u>	<u>611,687</u>	<u>659,486</u>	<u>495,026</u>
Fund Balances:					
July 1, 2007	<u>4,461,072</u>	<u>3,719,550</u>	<u>3,709,369</u>	<u>(741,522)</u>	<u>(10,181)</u>
June 30, 2008	<u>\$ 3,918,247</u>	<u>3,836,211</u>	<u>4,321,056</u>	<u>(82,036)</u>	<u>484,845</u>

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

Louisville Municipal School District
 Budgetary Comparison Schedule
 16th Section Interest 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:					
Sixteenth section sources	\$ 318,000	602,960	602,183	284,960	(777)
Total Revenues	318,000	602,960	602,183	284,960	(777)
Expenditures:					
Sixteenth section	15,400	17,360	17,359	(1,960)	1
Total Expenditures	15,400	17,360	17,359	(1,960)	1
Excess (Deficiency) of Revenues over Expenditures	302,600	585,600	584,824	283,000	(776)
Other Financing Sources (Uses):					
Operating transfers out	(250,000)	(250,000)	(250,000)	0	0
Total Other Financing Sources (Uses)	(250,000)	(250,000)	(250,000)	0	0
Net Change in Fund Balances	52,600	335,600	334,824	283,000	(776)
Fund Balances:					
July 1, 2007	2,337,465	2,473,239	2,473,239	135,774	0
June 30, 2008	\$ 2,390,065	2,808,839	2,808,063	418,774	(776)

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

LOUISVILLE MUNICIPAL 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 and each major Special Revenue Fund consistent with accounting principles generally accepted in the United States of America.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

LOUISVILLE MUNICIPAL SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30,2008

<u>Federal Grantor/ Pass-through Grantor/ Program Title</u>	<u>Catalog Of Federal Domestic Assistance No.</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>		
Passed through the Mississippi Department of Education:		
Child nutrition cluster		
School breakfast program	10.553	285,684
National school lunch program	10.555	887,390
Total		<u>1,173,074</u>
Child and adult care food program	10.558	<u>2,098</u>
Forest services:		
National forest-dependent rural communities	10.670	<u>80,077</u>
Total U.S. Department of Agriculture		<u>1,255,249</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	45,558
Total Federal Communications Commission		<u>45,558</u>
<u>U.S. Department of Defense</u>		
Direct program:		
Reserve Officers' Training Corps	12.XXX	46,406
Total U.S. Department of Defense		<u>46,406</u>
<u>U.S. Department of Interior</u>		
Direct program:		
Payments in lieu of taxes	15.226	99,693
Total U.S. Department of Interior		<u>99,693</u>
<u>U.S. Department of Education</u>		
Direct program:		
Impact aid - facilities maintenance	84.040	47,786
Twenty-first century community learning centers	84.287	367
Total		<u>48,153</u>
Passed through the Mississippi Department of Education:		
Title I, grants to local educational agencies	84.010	1,124,601
Career and technical education - basic grants to states	84.048	48,963
Safe and drug free schools and communities - state grants	84.186	23,570
State grants for innovative programs	84.298	9,082
Education technology state grants	84.318	7,488
Reading first state grants	84.357	152,100
Rural education	84.358	48,992
Improving teacher quality - state grants	84.367	228,977
Grants for state assessments and related activities	84.369	15,632
Total		<u>1,659,405</u>

LOUISVILLE MUNICIPAL 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 No.	Federal Expenditures
Special Education Cluster:		
Special Education - Grants to States	84.027	688,675
Special Education - Preschool Grants	84.173	36,459
Total Special Education Cluster		<u>725,134</u>
Total U.S. Department of Education		<u>2,432,692</u>
Total for All Federal Awards		<u>\$ 3,879,598</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.

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

Expenditures	Total	Instruction and Other Student Expenditures		
		General Administration	School Administration	Other
Salaries and fringe benefits \$	17,935,315	579,854	1,240,208	2,531,919
Other	5,696,147	189,292	111,960	2,986,365
Total	\$ 23,631,462	769,146	1,352,168	5,518,284
Total number of students*	2,717			
Cost per student	\$ 8,698	283	498	2,031

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

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

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

School Administration - Includes expenditures for the following function: Support Services - School Administration (2400s).

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

* 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

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

OTHER SUPPLEMENTAL INFORMATION

Louisville Municipal School District
Statement of Revenues, Expenditures and Changes in Fund Balances
General Fund
Last Four Years

"UNAUDITED"

	2008	2007*	2006*	2005*
Revenues:				
Local sources	\$ 5,182,543	4,651,648	4,581,865	3,910,644
State sources	13,269,855	12,680,681	12,394,635	11,818,859
Federal sources	316,766	371,340	304,750	270,905
Total Revenues	<u>18,769,164</u>	<u>17,703,669</u>	<u>17,281,250</u>	<u>16,000,408</u>
Expenditures:				
Instruction	11,172,056	10,204,745	9,967,782	9,513,790
Support services	6,633,207	6,448,892	5,635,168	5,217,164
Noninstructional services	16,671			
Sixteenth section	16,860	22,517	10,710	
Debt service:				
Principal	22,462	22,463	15,907	
Total Expenditures	<u>17,861,256</u>	<u>16,698,617</u>	<u>15,629,567</u>	<u>14,730,954</u>
Excess (Deficiency) of Revenues over Expenditures	<u>907,908</u>	<u>1,005,052</u>	<u>1,651,683</u>	<u>1,269,454</u>
Other Financing Sources (Uses):				
Insurance loss recoveries	85,440	1,951		15,406
Sale of transportation equipment	6,164			
Operating transfers in	270,103	92,078	21,973	20,584
Operating transfers out	(657,928)	(1,140,076)	(1,174,082)	(1,137,087)
Total Other Financing Sources (Uses)	<u>(296,221)</u>	<u>(1,046,047)</u>	<u>(1,152,109)</u>	<u>(1,101,097)</u>
Net Change in Fund Balances	<u>611,687</u>	<u>(40,995)</u>	<u>499,574</u>	<u>168,357</u>
Fund Balances:				
July 1,	3,709,369	3,759,271	3,259,697	3,091,340
Prior period adjustments		(8,907)		
July 1, as restated	<u>3,709,369</u>	<u>3,750,364</u>	<u>3,259,697</u>	<u>3,091,340</u>
June 30,	<u>\$ 4,321,056</u>	<u>3,709,369</u>	<u>3,759,271</u>	<u>3,259,697</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

Louisville Municipal School District
Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Funds
Last Four Years

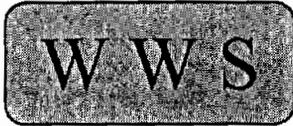
"UNAUDITED"

	2008	2007*	2006*	2005*
Revenues:				
Local sources	\$ 5,578,217	4,992,468	4,921,746	4,253,045
State sources	14,354,962	13,251,836	13,064,016	12,455,392
Federal sources	3,878,771	4,370,414	4,296,715	4,015,851
Sixteenth section sources	692,197	403,469	132,148	717,899
Total Revenues	24,504,147	23,018,187	22,414,625	21,442,187
Expenditures:				
Instruction	13,714,527	13,025,452	13,271,011	12,569,823
Support services	8,156,822	8,070,268	7,074,011	6,504,484
Noninstructional services	1,630,513	1,581,173	1,619,740	1,459,458
Sixteenth section	107,138	93,178	101,872	35,516
Debt service:				
Principal	22,462	22,463	42,904	40,963
Interest			797	1,519
Total Expenditures	23,631,462	22,792,534	22,110,335	20,611,763
Excess (Deficiency) of Revenues over Expenditures	872,685	225,653	304,290	830,424
Other Financing Sources (Uses):				
Insurance loss recoveries	85,440	1,951		15,406
Sale of transportation equipment	6,164			
Operating transfers in	928,031	1,232,154	1,196,055	1,157,671
Operating transfers out	(928,031)	(1,232,154)	(1,196,055)	(1,157,671)
Total Other Financing Sources (Uses)	91,604	1,951	0	15,406
Net Change in Fund Balances	964,289	227,604	304,290	845,830
Fund Balances:				
July 1,	6,755,747	6,521,447	6,208,444	5,371,327
Prior period adjustments		(8,907)		
July 1, as restated	6,755,747	6,512,540	6,208,444	5,371,327
 Increase (Decrease) in reserve for inventory	 (13,065)	 15,603	 8,713	 (8,713)
June 30,	\$ 7,706,971	6,755,747	6,521,447	6,208,444

*SOURCE - PRIOR YEAR AUDIT REPORTS

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

REPORTS ON INTERNAL CONTROLS AND COMPLIANCE



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Certified Public Accountants

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

Superintendent and School Board
Louisville Municipal School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Louisville Municipal School District as of and for the year ended June 30, 2008, which collectively comprise Louisville Municipal School District's basic financial statements and have issued our report thereon dated June 11, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as Findings 2008-1, 2008-2 and 2008-3, to be significant deficiencies in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above in Finding 2008-1 to be a material weakness.

Compliance and Other Matters

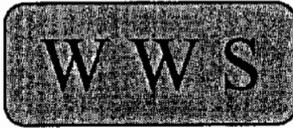
As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance or other matter that we have reported to management of the school district in a separate letter dated June 11, 2009, which is included in this report.

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

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

Watkins, Ward and Stafford, PLLC
Louisville, Mississippi
June 11, 2009

Watkins, Ward and Stafford, PLLC



Watkins, Ward and Stafford
Professional Limited Liability Company
Certified Public Accountants

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Michael L. Pierce, CPA

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Robin Y. McCormick, CPA/PFS
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Thomas J. Browder, CPA
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John N. Russell, CPA
Kenny R. Dickenson, CPA
Thomas A. Davis, CPA
Anita L. Goodrum, CPA

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

Superintendent and School Board
Louisville Municipal School District

Compliance

We have audited the compliance of the Louisville Municipal 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, Louisville Municipal School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the Louisville Municipal 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 program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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.

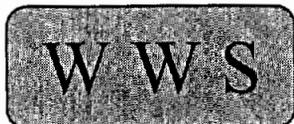
This report is intended solely for the information and use of the school board and management, others within the entity, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified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

Watkins, Ward and Stafford, PLLC
Louisville, Mississippi
June 11, 2009

Watkins, Ward and Stafford, PLLC

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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



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

Superintendent and School Board
Louisville Municipal School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Louisville Municipal School District as of and for the year ended June 30, 2008, which collectively comprise Louisville Municipal School District's basic financial statements and have issued our report thereon dated June 11, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$2,639 of classroom supply funds carried over from previous years.

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

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

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

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements disclosed the following instance of noncompliance described in Finding 2008-1 in the Schedule of Findings and Questioned Costs.

1. Finding

Section 27-39-207, Miss Code Ann. (1972), requires that Mississippi Public School Districts publish a notice of tax increase if the district requests an increase in ad valorem tax from the local levying authorities. The statute is very specific about the wording of this notice. Per our review of the notice for tax increase we noted that a paragraph was left off the notice of tax increase thus nullifying the authority the district had to request an increase in ad valorem tax. As a result, the District incurred an ad valorem escrow of \$273,350. An audit adjustment was proposed and made by management to properly record this escrow. Improper advertisement of the "Notice of Tax Increase" by the district resulted in an escrow therefore reducing the following year's request by the amount of the funds held in escrow.

Recommendation

We recommend that the district comply with Section 27-39-207, Miss Code Ann. (1972), which requires the district publish a notice of tax increase with very specific wording if the district requests an increase in ad valorem tax from the local levying authorities. We also recommend the district comply with Sections 37-57-105 and 37-57-107, Miss Code Ann. (1972) and reduce its homestead and ad valorem request for the next fiscal year by \$273,350.

School District's Response

We will comply with Section 27-39-207, Miss Code Ann. (1972), and publish a notice of tax increase with very specific wording when an increase in ad valorem tax from the local levying authorities is requested. We will also comply with Sections 37-57-105 and 37-57-107, Miss Code Ann. (1972) and reduce our homestead and ad valorem request for the next fiscal year by \$273,350.

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

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

Watkins, Ward and Stafford, PLLC
Louisville, Mississippi
June 11, 2009

Watkins, Ward and Stafford, PLLC

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

Section 1: Summary of Auditor's Results

Financial Statements:

- | | |
|---|-------------|
| 1. Type of auditor's report issued on the financial statements: | Unqualified |
| 2. Material noncompliance relating to the financial statements? | No |
| 3. Internal control over financial reporting: | |
| a. Material weakness(es) identified? (Yes or No) | Yes |
| b. Significant deficiency(ies) identified that are not considered to be material weaknesses? (Yes or None Reported) | Yes |

Federal Awards:

- | | |
|---|---------------|
| 4. Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 5. Internal control over major programs: | |
| a. Material weakness(es) identified? (Yes or No) | No |
| b. Significant deficiency(ies) identified that are not considered to be material weaknesses? (Yes or None Reported) | None Reported |
| 6. Any audit finding(s) reported as required by Section ____510(a) of Circular A-133? (Yes or No) | No |
| 7. Federal programs identified as major programs: | |
| a. Child nutrition cluster
CFDA #10.553
CFDA #10.555 | |
| b. Special education cluster
CFDA #84.027
CFDA #84.173 | |
| 8. The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. Auditee qualified as a low-risk auditee? (Yes or No) | Yes |
| 10. Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____315(b) of OMB Circular A-133? (Yes or No) | Yes |

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

Section 2: Financial Statement Findings

Material Weakness

Notice of Tax Increase Requirements Should Be Met

2008-1 Finding

Section 27-39-207, Miss Code Ann. (1972), requires that Mississippi Public School Districts publish a notice of tax increase if the district requests an increase in ad valorem tax from the local levying authorities. The statute is very specific about the wording of this notice. Per our review of the notice for tax increase we noted that a paragraph was left off the notice of tax increase thus nullifying the authority the district had to request an increase in ad valorem tax. As a result, the District incurred an ad valorem escrow of \$273,350. An audit adjustment was proposed and made by management to properly record this escrow. Improper advertisement of the "Notice of Tax Increase" by the district resulted in an escrow therefore reducing the following year's request by the amount of the funds held in escrow.

Recommendation

We recommend that the district comply with Section 27-39-207, Miss Code Ann. (1972), which requires the district publish a notice of tax increase with very specific wording if the district requests an increase in ad valorem tax from the local levying authorities. We also recommend the district comply with Sections 37-57-105 and 37-57-107, Miss Code Ann. (1972) and reduce its homestead and ad valorem request for the next fiscal year by \$273,350.

School District's Response

We will comply with Section 27-39-207, Miss Code Ann. (1972), and publish a notice of tax increase with very specific wording when an increase in ad valorem tax from the local levying authorities is requested. We will also comply with Sections 37-57-105 and 37-57-107, Miss Code Ann. (1972) and reduce our homestead and ad valorem request for the next fiscal year by \$273,350.

Significant Deficiencies not Considered to be a Material Weakness

Controls Over Athletic Event Transmittal Forms Should be Strengthened

2008-2 Finding

During our testing of activity fund receipts we noted the following instances of weaknesses in controls over athletic event transmittal forms. We noted 11 instances where the principal of the applicable school did not sign the athletic event transmittal form verifying the form as accurate and complete. We also noted 9 instances where the athletic event form did not contain information as to beginning and ending ticket numbers so that the information on the form could not be verified.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

Recommendation

We recommend that an athletic event transmittal form be completed for every athletic event that contains all information necessary to verify tickets sold and cash received. The report should be signed by the gate workers and also by the applicable principal once the information on the form has been verified.

School District's Response

An athletic event transmittal form for every athletic event will be completed in its entirety. The form will contain information necessary to verify tickets sold and cash received and will be signed by the applicable gate worker along with the applicable principal once the information on the form has been verified.

Internal Controls Surrounding Activity and Club Fund Expenditures Should Be Strengthened

2008-3 Finding

Management is responsible for establishing a proper internal control system to ensure financial accountability and accurate reporting of expenditures.

During our testing of activity and club fund disbursements we noted the following deficiencies:

- A. We noted 4 instances where a purchase order was prepared after the purchase and one instance where a blank purchase order was issued with no supporting documentation.
- B. We note 7 instances where an invoice was not cancelled as paid. This needs to be done to prevent any duplicate payment.

Improper internal controls concerning activity and club fund expenditures could result in unallowable expenditures.

Recommendation

We recommend the district implement stronger internal controls to ensure that all purchases are approved by appropriate personnel prior to the purchase and that all invoices are cancelled as paid to prevent duplicate payment.

School District's Response

We will implement stronger internal controls over activity and club fund expenditures to ensure that all purchases are approved by the appropriate personnel prior to the purchase and that all invoices are cancelled as paid when they are paid in order to prevent duplicate payment.

Section 3: Federal Award Findings and Questioned Costs

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

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

SUMMARY OF PRIOR AUDIT FINDINGS

Financial and Compliance Audit Division

As required by section _____ .315(b) of OMB Circular A-133, the Louisville Municipal School District has prepared and hereby submits the following summary schedule of prior audit findings as of June 30, 2008.

Finding	Status
2007-3	Corrected
2007-4	Corrected

Sincerely,

Mr. Harry Kemp
Superintendent