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MONROE COUNTY SCHOOL DISTRICT

**Audited Financial Statements
For the Year Ended June 30, 2008**

MONROE COUNTY SCHOOL DISTRICT

TABLE OF CONTENTS

FINANCIAL AUDIT REPORT	
Independent Auditor's Report on the Basic Financial Statements and Supplemental Information	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
FINANCIAL STATEMENTS	
Statement of Net Assets	12
Statement of Activities	13
Balance Sheet - Governmental Funds	14
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets	15
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	17
Statement of Fiduciary Assets and Liabilities	18
Notes to the Financial Statements	19
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - General Fund	36
Notes to the Required Supplemental Information	37
SUPPLEMENTAL INFORMATION	
Schedule of Expenditures of Federal Awards	39
Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds	40
OTHER SUPPLEMENTAL INFORMATION	
Statement of Revenues, Expenditures and Changes in Fund Balance Last 4 Years - General Fund	42
Statement of Revenues, Expenditures and Changes in Fund Balance Last 4 Years - All Governmental Funds	43
REPORTS ON COMPLIANCE AND INTERNAL CONTROL	
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.	45
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.	47
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS	50
SCHEDULE OF FINDINGS AND RESPONSES	53

MONROE COUNTY 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
Monroe County School District

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 25, 2009, on our consideration of the Monroe County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 5 through 10 and the Budgetary Comparison Schedule and corresponding notes on pages 36 and 37 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 Monroe County School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. In addition, the Schedule of Instructional, Administrative and other Expenditures – Governmental Funds is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Watkins, Ward and Stafford, PLLC

July 25, 2009

MONROE COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

FINANCIAL HIGHLIGHTS

- Total net assets for 2008 decreased \$612,301, which represents an approximate 5.6% decrease from fiscal year 2007. Included in this amount is a prior period adjustment of \$97,226 for adjustments to accumulated depreciation. Total net assets for 2007 decreased \$333,424 which represents a 3% decrease from fiscal year 2006.
- General revenues account for \$15,643,088 and \$15,036,528 in revenue, or 82% and 82% of all revenues for the fiscal years 2008 and 2007, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$3,430,828 or 18% of total revenues for 2008 and \$3,281,076 or 18% of total revenues for 2007.
- The District had \$19,588,991 and \$18,651,028 in expenses for fiscal years 2008 and 2007; only \$3,430,828 for 2008 and \$3,281,076 for 2007 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$15,643,088 for 2008 and \$15,036,528 for 2007 were inadequate to provide for these programs and the school district had to rely on prior years' fund balance to fund the deficit.
- Among the major funds, the General Fund had \$15,492,863 in revenues and \$15,618,335 in expenditures for 2008 and \$14,980,968 in revenues and \$15,057,556 in expenditures in 2007. The General Fund's fund balance decreased by \$682,612 from 2007 to 2008 and decreased \$705,085 from 2006 to 2007. This decrease was due to the acquisition of capital assets during the year.
- Capital assets, net of accumulated depreciation, decreased by \$284,565 for 2008 and increased by \$360,174 for 2007. The decrease for 2008 was due to the increase in accumulated depreciation on assets moved from construction in progress.
- Long-term debt decreased by \$131,079 for 2008 and decreased by \$265,000 for 2007. In addition, the liability for compensated absences decreased by \$39,402 for 2008 and decreased by \$13,924 for 2007.

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 12 - 13 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 15 and 17, 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 14 - 17 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The school district's fiduciary activities are presented in a separate Statement of Fiduciary Assets and Liabilities on page 18.

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 19 – 34 of this report.

Other information: In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District’s budget process. The District adopts an annual operating budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund. This required supplementary information can be found on pages 35 - 37 of this report.

Additionally, a schedule of expenditures of federal awards, required by OMB Circular A-133, is presented on page 39; a schedule of instructional, administrative and other expenditures for governmental funds is presented on page 40; and a Statement of Revenues, Expenditures and Changes in Fund Balances of the General Fund and all Governmental Funds, required by the Mississippi Department of Education is presented on pages 42 and 43 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets: Net assets may serve over time as a useful indicator of government’s financial position. In the case of the District, assets exceeded liabilities by \$10,317,126 as of June 30, 2008.

By far the largest portion of the District’s net assets (54%) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, 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.

Table 1 presents a comparison of the District’s net assets for the fiscal years ended June 30, 2008 and 2007.

Table 1
Condensed Statement of Net Assets

	2008	2007	Total Dollar Variance	Total Percentage Variance
Current Assets	\$ 5,063,195	5,991,010	(927,815)	-15.49%
Capital Assets, net	9,052,073	9,336,638	(284,565)	-3.05%
Total Assets	<u>\$ 14,115,268</u>	<u>15,327,648</u>	<u>(1,212,380)</u>	<u>-7.91%</u>
Current Liabilities	\$ 485,901	864,361	(378,460)	-43.78%
Long-term liabilities outstanding	3,312,241	3,533,860	(221,619)	-6.27%
Total Liabilities	<u>\$ 3,798,142</u>	<u>4,398,221</u>	<u>(600,079)</u>	<u>-13.64%</u>
Net Assets:				
Invested in capital assets, net of related debt	\$ 5,583,152	5,736,638	(153,486)	-2.68%
Restricted	2,865,260	2,833,687	31,573	1.11%
Unrestricted	1,868,714	2,359,102	(490,388)	-20.79%
Total Net Assets	<u>\$ 10,317,126</u>	<u>10,929,427</u>	<u>(612,301)</u>	<u>-5.60%</u>

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

- Decrease in net capital assets in the amount of \$284,565.
- Decrease in capital related debt outstanding in the amount of \$131,079.

- Decrease in compensated absences in the amount of \$39,402.
- **Changes in net assets:** The District's total revenues for the fiscal year ended June 30, 2008 and June 30, 2007 were \$19,073,916 and \$18,317,604, respectively. The total cost of all programs and services for 2008 was \$19,588,991 and \$18,651,028 for 2007. Table 2 presents a comparison of the changes in net assets for the fiscal years ended June 30, 2008 and 2007.

Table 2
Change(s) in Net Assets

	2008	2007	Total Dollar Variance	Total Percentage Variance
Revenues:				
Program Revenues				
Charges for Services	\$ 859,462	872,915	(13,453)	-1.54%
Operating Grants & Contracts	2,571,366	2,408,161	163,205	6.78%
General Revenues				
Property Taxes	3,293,629	3,084,481	209,148	6.78%
Grants & Contracts-not restricted	11,892,881	11,556,153	336,728	2.91%
Other	456,578	395,894	60,684	15.33%
Total Revenue	19,073,916	18,317,604	756,312	4.13%
Expenses:				
Instruction	12,548,582	12,043,955	504,627	4.19%
Support Services	5,573,376	5,626,913	(53,537)	-0.95%
Non-instructional	1,215,433	794,207	421,226	53.04%
Sixteenth Section	32,863	8,308	24,555	295.56%
Interest on long-term liabilities	218,737	177,645	41,092	23.13%
Total Expenses	19,588,991	18,651,028	937,963	5.03%
Increase (Decrease) in Net Assets	\$ (515,075)	(333,424)	(181,651)	54.48%
Net Assets, July 1	10,929,427	11,262,851		
Prior Period Adjustment	(97,226)			
Net Assets, as restated	10,832,201	11,262,851		
Net Assets, June 30	10,317,126	10,929,427		

Governmental activities: The following table presents the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section and interest and other expenses on long-term debt for fiscal years ending June 30, 2008 and 2007, respectively. 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

	2008		2007	
	Total Expenses	Net (Expense) Revenue	Total Expenses	Net (Expense) Revenue
Instruction	\$ 12,548,582	(10,953,338)	12,043,955	(9,193,276)
Support Services	5,573,376	(4,919,581)	5,626,913	(5,626,913)
Non-instructional	1,215,433	(33,644)	794,207	(363,810)
Sixteenth Section	32,863	(32,863)	8,308	(8,308)
Interest on long-term liabilities	218,737	(218,737)	177,645	(177,645)
Total Expenses	\$ 19,588,991	(16,158,163)	18,651,028	(15,369,952)

- Net cost of governmental activities (\$16,158,163 and \$15,369,952 for 2008 and 2007, respectively) were financed by general revenue, which is made up of primarily property taxes of \$3,293,629 for 2008 and \$3,084,481 for 2007, unrestricted state and federal revenues of \$11,892,881 for 2008 and \$11,556,153 for 2007, sixteenth section sources of \$152,138 for 2008 and \$201,274 for 2007, prior years' fund balance of \$515,075 for 2008 and \$333,424 for 2007 and other sources of \$304,440 for 2008 and \$194,620 for 2007.
- Investment earnings accounted for \$216,356 for 2008 and \$161,743 for 2007 of funding.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$4,897,640, a decrease of \$580,398 due primarily to capital improvement. \$2,686,083 or 55% 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 \$2,211,557 or 45% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was \$682,612, a result of capital improvements. The Sixteenth Section Principal fund had an increase in fund balance of \$80,188. The fund balance of Other Governmental Funds showed an increase in the amount of \$22,026, which includes an increase in the reserve for inventory in the amount of \$3,522.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget. Budget revisions were made to address and correct the original budgets to reflect more accurately the sources and uses of funding for the school district.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2008, the District's total capital assets were \$16,358,667, including land, school buildings, building and other improvements, buses, other school vehicles, and furniture and equipment. This amount represents an increase of \$236,942 from the prior year. Total accumulated depreciation as of June 30, 2008 was \$7,306,594, including a prior period adjustment in the amount of \$97,226, and total depreciation expense for the year was \$463,738 resulting in total net capital assets of \$9,052,073.

Table 4
Capital Assets

	Capital Assets, Net of Depreciation		Total Percentage Variance
	2008	2007	2007-2008
Land	\$ 473,498	473,498	0.00%
Construction in Progress	0	756,262	-100.00%
Buildings	6,800,551	6,500,424	4.62%
Building Improvements	550,617	135,293	306.98%
Improvements Other Than Buildings	384,304	491,239	-21.77%
Mobile Equipment	768,881	884,094	-13.03%
Furniture and Equipment	74,222	95,828	-22.55%
Total	\$ <u>9,052,073</u>	<u>9,336,638</u>	<u>-3.05%</u>

Additional information of the District's capital assets can be found in Note 4 on page 29 of this report.

Debt Administration. At June 30, 2008, the District had \$3,455,000 in long-term debt outstanding, of which \$325,000 is due within one year. In addition, the liability for compensated absences decreased by \$39,402 from the prior year.

The District maintains a AA bond rating.

Table 5
Outstanding Long-Term Debt at June 30

	Outstanding Long-Term Debt		Total Percentage Variance
	2008	2007	2007-2008
Limited Obligation Bonds Payable	\$ 3,215,000	3,285,000	-2.13%
Three Mill Notes Payable	240,000	315,000	-23.81%
Capital Lease Payable	13,921	0	100.00%
Compensated Absences Payable	174,458	213,860	-18.42%
Total	\$ <u>3,643,379</u>	<u>3,813,860</u>	<u>-4.47%</u>

Additional information of the District's long-term debt can be found in Note 5 on pages 30-32 of this report.

CURRENT ISSUES

The Monroe County School District is financially stable. The District is proud of its community support of the public schools. The Monroe County School District has committed itself to financial excellence for many years. The District's system of financial planning, budgeting and internal financial controls is well regarded. The district plans to continue its sound fiscal management to meet the challenges of the future. The District actively pursues grant funding to supplement the local, state and federal revenue.

Enrollment for the 2007-2008 year decreased by approximately 6% to 2,214 students.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Monroe County School District, Post Office Box 209, Amory, Mississippi, 38821.

MONROE COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS

MONROE COUNTY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2008

Exhibit A

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 2,763,482
Investments	293,165
Due from other governments	446,134
Other receivables	5,662
Inventories	36,266
Deferred charges - bond issue costs	81,433
Restricted Assets	1,437,053
Capital assets, not being depreciated:	
Land	473,498
Construction in progress	
Capital assets, net of accumulated depreciation:	
Buildings	6,800,551
Building improvements	550,617
Improvements other than buildings	384,304
Mobile equipment	768,881
Furniture and equipment	<u>74,222</u>
Total Assets	<u>\$ 14,115,268</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 78,508
Unearned revenue	5,614
Interest payable on long-term liabilities	70,641
Long-term liabilities, due within one year	
Capital related liabilities	331,138
Non-capital related liabilities	
Long-term liabilities, due beyond one year	
Capital related liabilities	3,137,783
Non-capital related liabilities	<u>174,458</u>
Total Liabilities	<u>\$ 3,798,142</u>
Net Assets	
Investment in capital assets, net of related debt	\$ 5,583,152
Restricted net assets:	
Expendable:	
School - based activities	760,610
Debt service	498,919
Forestry improvements	40,974
Inventory	36,266
Unemployment benefits	50,417
Non-expendable:	
Sixteenth section	1,514,340
Unrestricted	<u>1,832,448</u>
Total Net Assets	<u>\$ 10,317,126</u>

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

MONROE COUNTY 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	\$ 12,548,582	392,242	1,203,002		(10,953,338)
Support services	5,573,376		653,795		(4,919,581)
Non-instructional	1,215,433	467,220	714,569		(33,644)
Sixteenth section sources	32,863				(32,863)
Interest on long-term liabilities	218,737				(218,737)
Total governmental activities	\$ 19,588,991	859,462	2,571,366	0	(16,158,163)
General Revenues:					
Taxes:					
					3,213,062
					80,567
Unrestricted grants and contributions:					
					11,666,633
					226,248
					216,356
					152,138
					88,084
					15,643,088
					(515,075)
					10,929,427
					(97,226)
					10,832,201
					10,317,126

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

MONROE COUNTY SCHOOL DISTRICT
 Balance Sheet - Governmental Funds
 June 30, 2008

Exhibit C

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	Debt Series 2008 Refunding	16th Section Principal Fund		
ASSETS					
Cash and cash equivalents	\$ 1,859,379		1,437,053	904,103	4,200,535
Investments				293,165	293,165
Due from other governments	203,796			242,338	446,134
Due from other funds	52,012			9,080	61,092
Advances to other fund			77,287		77,287
Inventories				36,266	36,266
Total Assets	\$ 2,115,187	0	1,514,340	1,484,952	5,114,479
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	\$ 64,124			14,384	78,508
Due to other funds	12,037			43,393	55,430
Unearned revenue				5,614	5,614
Advances from other funds	77,287				77,287
Total Liabilities	153,448	0	0	63,391	216,839
Fund Balances:					
Reserved for:					
Forestry improvement purposes				40,974	40,974
Inventory				36,266	36,266
Unemployment Benefits				50,417	50,417
Debt Service				569,560	569,560
Advances			77,287		
Permanent fund purposes			1,437,053		1,437,053
Unreserved:					
Undesignated, reported in:					
General fund	1,961,739				1,961,739
Special Revenue funds				724,344	724,344
Total Fund Balances	1,961,739	0	1,514,340	1,421,561	4,820,353
Total Liabilities and Fund Balances	\$ 2,115,187	0	1,514,340	1,484,952	5,037,192

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

MONROE COUNTY 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	\$ 4,897,640
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.	
Capital Assets	16,358,667
Accumulated Depreciation	(7,306,594)
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds, as follows.	
Long-term Liabilities	(3,643,379)
3. Governmental funds recognize interest on long-term debt when it becomes due, however the Statement of Net Assets recognizes interest as it accrues.	(70,641)
4. The costs associated with the issue of bonds are treated as an expenditure in the governmental funds; however, these costs are a deferred charge in the Statement of Net Assets. The reconciling amount will be the total amount of the bond issue costs (81,433) less accumulated amortization.	81,433
Total Net Assets - Governmental Activities	\$ <u>10,317,126</u>

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

MONROE COUNTY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2008

Exhibit D

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	Debt Series 2008 Refunding	16th Section Principal Fund		
Revenues:					
Local sources	\$ 3,772,639			592,102	4,364,741
Intermediate sources				9,000	9,000
State sources	11,493,691			906,945	12,400,636
Federal sources	226,533			1,837,077	2,063,610
Sixteenth section sources			72,646	150,476	223,122
Total Revenues	<u>15,492,863</u>	<u>0</u>	<u>72,646</u>	<u>3,495,600</u>	<u>19,061,109</u>
Expenditures:					
Instruction	10,671,376			1,661,151	12,332,527
Support services	4,742,476			720,137	5,462,613
Noninstructional services	1,651			1,199,172	1,200,823
Sixteenth section sources				32,863	32,863
Facilities acquisition and construction	199,364				199,364
Debt service:					
Principal				280,000	280,000
Interest	3,468			161,738	165,206
Other		81,433		712	82,145
Total Expenditures	<u>15,618,335</u>	<u>81,433</u>	<u>0</u>	<u>4,055,773</u>	<u>19,755,541</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(125,472)</u>	<u>(81,433)</u>	<u>72,646</u>	<u>(560,173)</u>	<u>(694,432)</u>
Other Financing Sources (Uses):					
Insurance Loss Recoveries	6,483				6,483
Proceeds from refunding bonds		2,995,000			2,995,000
Payment to refunded bond escrow agent		(2,913,567)			(2,913,567)
Inception of capital lease	18,805				18,805
Operating transfers in	161,503		7,542	747,000	916,045
Sale of other property	5,602			722	6,324
Operating transfers out	(747,000)			(169,045)	(916,045)
Other financing uses	(2,533)				(2,533)
Total Other Financing Sources (Uses)	<u>(557,140)</u>	<u>81,433</u>	<u>7,542</u>	<u>578,677</u>	<u>110,512</u>
Net Change in Fund Balances	<u>(682,612)</u>	<u>0</u>	<u>80,188</u>	<u>18,504</u>	<u>(583,920)</u>
Fund Balances:					
July 1, 2007	<u>2,644,351</u>		<u>1,434,152</u>	<u>1,399,535</u>	<u>5,478,038</u>
Incr. (Dec.) in reserve for inventory				3,522	3,522
June 30, 2008	<u>\$ 1,961,739</u>	<u>0</u>	<u>1,514,340</u>	<u>1,421,561</u>	<u>4,897,640</u>

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

MONROE COUNTY SCHOOL DISTRICT
 Reconciliation of the Governmental Funds Statement of Revenues,
 Expenditures and Changes in Fund Balances to the Statement of Activities
 For the Year Ended June 30, 2008

Exhibit D-1

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ (583,920)
Amounts reported for governmental activities in the statement of activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchased amounted to \$280,922 and the depreciation expense amounted to \$463,738	(182,816)
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.	284,884
3. (Increase) decrease in compensated absence is reported as an expenditure in the governmental funds, but the payment reduces long-term liability in the Statement of Activities.	39,402
4. Gains and losses on the sale or disposal of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds.	(4,523)
5. Governmental funds recognize interest on long-term debt when it becomes due, however, the Statement of Activities recognizes interest as it accrues regardless of when it becomes due.	748
6. An increase in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are decreased in the statement of activities.	3,522
7. The issuance of long-term debt provides current financial resources to governmental funds, but the issuance increases long-term liabilities in the Statement of Net Assets. Thus, the change in net assets differs from the change in fund balances by the amount of debt proceeds of (3,013,805) exceeded the amount refunded of (2,860,000)	(153,805)
8. Governmental funds report the costs associated with the issuance of refunding bonds as an expenditure. However, in the Statement of Activities, the costs of refunding bonds are amortized over the life of the new bond issue.	<u>81,433</u>
Change in Net Assets of Governmental Activities	\$ <u><u>(515,075)</u></u>

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

MONROE COUNTY SCHOOL DISTRICT
Statement of Fiduciary Assets and Liabilities
June 30, 2008

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 1,086,812
Due from other funds	4,388
Total Assets	\$ 1,091,200
Liabilities	
Accounts payable and accrued liabilities	\$ 988,472
Due to student clubs	92,678
Due to other funds	10,050
Total Liabilities	\$ 1,091,200

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

MONROE COUNTY 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 is elected by the citizens of each defined county district. For financial reporting purposes, Monroe County School District has included all funds and organization.

B. Basis of Presentation.

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

Government-wide Financial Statements:

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

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

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

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

MONROE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2008

[continue]

Fund Financial Statements:

Separate fund 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 funds. 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.

Debt Series 2008 Refunding Fund - This fund was established to record the transactions from refunding of the State Aid Capital Improvement, 1998 limited obligation bond.

Sixteenth Section Principal Fund - This is the school district's sixteenth section principal fund. This principal is restricted and only earnings may be spent to support the district's programs.

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

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

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

MONROE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2008

[continue]

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

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

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

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

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

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

MONROE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2008

[continue]

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.

F. Assets, liabilities, and net assets or equity

1. Cash and Cash equivalents and Investments

Cash and cash equivalents.

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

Investments.

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

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

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

2. Receivable and payables

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

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

3. Due from Other Governments

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

MONROE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2008

[continue]

4. Inventories and Prepaid Items.

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

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

5. Restricted Assets

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

6. Capital Assets.

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

MONROE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2008

[continue]

See Note 4 for details.

7. Compensated Absences.

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

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

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

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

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

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

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.

MONROE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2008

[continue]

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

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

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 investment purposes or borrowing by the school board for capital purposes.

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

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

MONROE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2008

[continue]

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 \$4,200,535 and \$1,086,812, respectively. The carrying amount of deposits reported in the government-wide statements was: cash and cash equivalents - \$2,763,482 and restricted assets - \$1,437,053. The restricted assets of \$1,437,053 represent the cash balance 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. The bank balance was \$5,913,604.

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, \$757,512 of the district's bank balance of \$5,913,604 was exposed to custodial credit risk.

Cash with Fiscal Agents.

The school district had no cash with fiscal agents held by financial institutions at June 30, 2008.

Investments.

As of June 30, 2008, the district had the following investments. All investments are in an internal investment pool.

<u>Investment Type</u>	<u>Maturities (in years)</u>	<u>Fair Value</u>	<u>Rating</u>
Hancock Horizon Treas. Sec. Money Market Fund	Less than 1	\$ 293,165	AAAm
Total Investments		<u>\$ 293,165</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 Sections 27-105-33(d) and 27-105-33(e), Miss. Code Ann. (1972). The district does not have a formal investment policy that would further limit its 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. The Hancock Horizon Treasury Securities Money Market Fund investments are not backed by the full faith and credit of the federal government and are not FDIC insured.

MONROE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2008

[continue]

(3) Interfund Receivable, Payables and Transfers.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Other governmental funds	\$ 43,393
General fund	Fiduciary funds	8,619
Other governmental funds	General fund	7,649
Fiduciary funds	General fund	4,388
Other governmental funds	Fiduciary funds	<u>1,431</u>
		<u>\$ 65,480</u>

Interfund transactions and balances are the result of timing differences between the date expenses/expenditures occur and the date payments are made. All interfund balances are expected to be repaid within one year from the date of the financial statements.

B. Advances To/From Other Funds.

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Sixteenth Section Fund	General Fund	\$ <u>77,287</u>

Note: The sixteenth section principal loans payable is not reflected on the Statement of Net Assets because these funds were borrowed by the General Fund from the Sixteenth Section Principal (Permanent Trust) in accordance with Section 29-3-113, Miss. Code Ann. (1972). The revenues and expenditures associated with these transactions were reflected on Exhibit D-1.

Sixteenth section principal loans payable.

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

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 9,785	3,092	12,877
2010	10,177	2,700	12,877
2011	10,584	2,293	12,877
2012	11,007	1,870	12,877
2013	11,448	1,429	12,877
2014-2018	<u>24,286</u>	<u>1,467</u>	<u>25,753</u>
	<u>\$ 77,287</u>	<u>12,851</u>	<u>90,138</u>

MONROE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2008

[continue]

C. Interfund Transfers.

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amount</u>
General fund	Other governmental funds	\$ 747,000
Other governmental funds	Sixteenth section principal fund	7,542
Other governmental funds	General fund	<u>161,503</u>
		<u>\$ 916,045</u>

All interfund transfers were routine and consistent with the activities of the fund making the transfer.

MONROE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2008

[continue]

(4) Capital Assets.

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

	Balance 7/1/2007	Additions	Retirements	Completed Construction	Adjustments	Balance 6/30/2008
<u>Non-depreciable capital assets:</u>						
Land	\$ 473,498					473,498
Construction in Progress	756,262			(756,262)		0
Total non-depreciable capital assets	<u>1,229,760</u>			<u>(756,262)</u>		<u>473,498</u>
<u>Depreciable capital assets:</u>						
Buildings	11,514,672			515,950		12,030,622
Building improvements	169,117	199,364		240,312		608,793
Improvements other than buildings	645,071					645,071
Mobile equipment	2,115,348	61,580	(27,753)			2,149,175
Furniture and equipment	447,757	19,978	(16,227)			451,508
Total depreciable capital assets	<u>14,891,965</u>	<u>280,922</u>	<u>(43,980)</u>	<u>756,262</u>		<u>15,885,169</u>
<u>Less accumulated depreciation for:</u>						
Buildings	5,014,248	215,839			(16)	5,230,071
Building improvements	33,824	24,352				58,176
Improvements other than buildings	153,832	17,226			89,709	260,767
Mobile equipment	1,231,254	169,877	(24,977)		4,140	1,380,294
Furniture and equipment	351,929	36,444	(14,480)		3,393	377,286
Total accumulated depreciation	<u>6,785,087</u>	<u>463,738</u>	<u>(39,457)</u>		<u>97,226</u>	<u>7,306,594</u>
Total depreciable capital assets, net	<u>8,106,878</u>	<u>(182,816)</u>	<u>(4,523)</u>	<u>756,262</u>	<u>(97,226)</u>	<u>8,578,575</u>
Governmental activities capital assets, net	<u>\$ 9,336,638</u>	<u>(182,816)</u>	<u>(4,523)</u>	<u>0</u>	<u>(97,226)</u>	<u>9,052,073</u>

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 239,134
Support services	202,532
Non-instructional	22,072
Total Depreciation Expense	<u>\$ 463,738</u>

MONROE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2008

[continue]

(5) Long-term liabilities.

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

	Balance				Amounts due	
	7/1/2007	Additions	Reductions	Adjustments	6/30/2008	within one year
A. Limited obligations bonds payable	\$ 3,285,000	2,995,000	3,065,000		3,215,000	250,000
B. Three mill notes payable	315,000		75,000		240,000	75,000
C. Obligations under capital lease	0	18,805	4,884		13,921	6,138
D. Compensated absences payable	213,860			(39,402)	174,458	
Total	\$ 3,813,860	3,013,805	3,144,884	(39,402)	3,643,379	331,138

A. Limited obligation bonds payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital improvement, 1998	4.6-6.0%	3/15/1998	2/1/2009	\$ 4,520,000	220,000
State aid capital improvement refunding, 2008	2.4-3.65%	4/10/2008	8/1/2018	2,995,000	2,995,000
Total				\$ 7,515,000	3,215,000

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

Year Ending June 30	Principal	Interest	Total
2009	\$ 250,000	165,628	415,628
2010	260,000	91,840	351,840
2011	265,000	85,600	350,600
2012	270,000	78,975	348,975
2013	280,000	71,820	351,820
2014-2018	1,550,000	223,540	1,773,540
2019-2023	340,000	6,205	346,205
Total	\$ 3,215,000	723,608	3,938,608

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

[continue]

MONROE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2008

On April 10, 2008, the district issued \$2,995,000 in limited obligation refunding bonds with an average interest rate of 3.03 percent to advance refund \$2,860,000 of outstanding limited obligation bonds with an average interest rate of 5.3 percent. The net proceeds of \$2,913,567 after payments of \$81,433 for issuance costs were deposited in an irrevocable trust with an escrow agent to provide for all future debt payment requirements on Limited Obligation Bonds.

As a result, the State Aid Capital Improvement Bonds, Series 1998 are considered to be defeased and the liability for those bonds has been removed from long-term liabilities.

The district advance refunded the State Aid Capital Improvement Bonds, Series 1998 to reduce its total debt service payments over the remaining ten years of the debt by approximately \$114,853 and to obtain an economic gain of \$97,256.

B. Three mill notes payable.

Debt currently outstanding is as follows:

<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
5.36%	6/15/2000	7/15/2010	\$ 850,000	240,000

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 75,000	10,854	85,854
2010	80,000	6,700	86,700
2011	85,000	2,278	87,278
Total	<u>\$ 240,000</u>	<u>19,832</u>	<u>259,832</u>

The debt will be retired from the Monroe County Debt Service 1992 Fund.

C. The school district has entered into a lease agreement as lessee for financing the acquisition of a 2007 Chevrolet Impala at a cost of \$18,805 with a down payment of \$0. This lease qualifies as a capital lease for accounting purposes.

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 6,138	852	6,990
2010	6,629	362	6,991
2011	1,154	11	1,165
Total	<u>\$ 13,921</u>	<u>1,225</u>	<u>15,146</u>

[continue]

MONROE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2008

The school district uses the straight-line method of amortization for the lease payments which is not in accordance with accounting principles generally accepted in the United States of America. However, the difference between the effective interest method and the straight-line method is not considered material.

This debt will be retired from the District Maintenance Fund.

D. Compensated absences payable.

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

(6) Other Commitments.

The school district has an operating lease for copiers.

Lease expenditures for the year ended June 30, 2008, amounted to \$23,622. Future lease payments for this lease are as follows:

Year Ending June 30	Amount
2009	\$ 23,622
Total	\$ <u>23,622</u>

(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 current rate is 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 \$1,294,175, \$1,220,649 and \$1,117,318, respectively, which equaled the required contributions for each year.

(8) Sixteenth Section Lands.

Sixteenth section school lands, or lands granted in lieu thereof, constitute property held in trust for the benefit of the public schools. The school board, under the general supervision of the Office of the Secretary of State, has control and jurisdiction of said school trust lands and of all funds arising from any disposition thereof. It is the duty of the school board to manage the school trust lands and all funds arising therefrom as trust property. Accordingly, the

[continue]

MONROE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2008

board shall assure that adequate compensation is received for all uses of the trust lands, except for uses by the public schools.

The following are the future rental payments to be made to the school district for the use of school trust lands. These future rental payments are from existing leases and do not anticipate renewals or new leases.

Year Ending June 30	Amount
2009	\$ 87,019
2010	87,019
2011	57,024
2012	52,586
2013	12,076
2014-2018	28,195
2019-2023	18,503
2024-2028	17,073
2029-2033	<u>10,065</u>
Total	<u>\$ 369,560</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>
Correction of beginning accumulated depreciation	\$97,226

(10) Contingencies.

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

(11) Risk Management.

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

Participation in Public Entity Risk Pool.

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The

MONROE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2008

[continue]

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

MONROE COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION

MONROE COUNTY SCHOOL DISTRICT
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2008

Schedule 1

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 3,766,228	3,772,639	3,772,639	6,411	0
State sources	11,550,990	11,493,691	11,493,691	(57,299)	0
Federal sources	237,906	226,533	226,533	(11,373)	0
Total Revenues	<u>15,555,124</u>	<u>15,492,863</u>	<u>15,492,863</u>	<u>(62,261)</u>	<u>0</u>
Expenditures:					
Instruction	11,251,195	10,671,376	10,671,376	579,819	0
Support services	5,440,317	4,789,085	4,807,890	651,232	(18,805)
Noninstructional services	2,404	1,651	1,651	753	0
Facilities acquisition and construction	140,000	133,950	133,950	6,050	0
Debt service:				0	0
Interest	3,468	3,468	3,468	0	0
Total Expenditures	<u>16,837,384</u>	<u>15,599,530</u>	<u>15,618,335</u>	<u>1,237,854</u>	<u>(18,805)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,282,260)</u>	<u>(106,667)</u>	<u>(125,472)</u>	<u>1,175,593</u>	<u>(18,805)</u>
Other Financing Sources (Uses):					
Insurance Loss Recoveries		6,483	6,483	6,483	0
Sale of other property		5,602	5,602	5,602	0
Inception of capital lease			18,805		18,805
Operating transfers in	2,229,652	2,076,703	161,503	(152,949)	1,915,200
Operating transfers out	(2,840,090)	(2,662,200)	(747,000)	177,890	(1,915,200)
Other financing uses		(2,533)	(2,533)	(2,533)	0
Total Other Financing Sources (Uses)	<u>(610,438)</u>	<u>(575,945)</u>	<u>(557,140)</u>	<u>34,493</u>	<u>18,805</u>
Net Change in Fund Balances	<u>(1,892,698)</u>	<u>(682,612)</u>	<u>(682,612)</u>	<u>1,210,086</u>	<u>0</u>
Fund Balances:					
July 1, 2007	<u>2,644,351</u>	<u>2,644,351</u>	<u>2,644,351</u>	<u>0</u>	<u>0</u>
June 30, 2008	<u>\$ 751,653</u>	<u>1,961,739</u>	<u>1,961,739</u>	<u>1,210,086</u>	<u>0</u>

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

MONROE COUNTY SCHOOL DISTRICT

Notes to the Required Supplementary Information
For the Year Ended June 30, 2008

Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(2) Budget Amendments and revisions.

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

MONROE COUNTY SCHOOL DISTRICT
SUPPLEMENTAL INFORMATION

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

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U. S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Child Nutrition cluster:		
School breakfast program	10.553	210,856
National school lunch program	10.555	553,808
Total child nutrition cluster		<u>764,664</u>
Total U. S. Department of Agriculture		<u>764,664</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Administrative Company:		
The schools and libraries program of the universal service fund	32.XXX	14,248
Total Federal Communications Commission		<u>14,248</u>
<u>U.S. Department of Health and Human Services</u>		
Passed-through Mississippi Department of Education:		
Medical assistance program	93.778	41,876
Total U.S. Department of Health and Human Services		<u>41,876</u>
<u>U. S. Department of Education</u>		
Passed-through Mississippi Department of Rehabilitation Services:		
Rehabilitation services - vocational rehabilitation grants to states	84.126	285
Total		<u>285</u>
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	302,546
Safe and drug-free school and communities - state grants	84.186	7,592
Career and technical education - basic grants to states	84.048	53,527
State grants for innovative programs	84.298	3,572
Education technology state grants	84.318	119,456
Total		<u>486,693</u>
Special education cluster:		
Special education - grant to states	84.027	530,410
Special education - preschool grants	84.173	28,427
Total		<u>558,837</u>
Total passed-through Mississippi Department of Education		<u>1,045,815</u>
Total for All Federal Awards		<u>\$ 1,866,603</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.

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

Expenditures	Total	Instruction and Other		
		Student Instructional Expenditures	General Administrative	School Administrative Other
Salaries and fringe benefits	\$ 15,464,809	12,679,699	398,320	891,184
Other	4,290,732	1,230,177	364,325	66,878
Total	\$ 19,755,541	13,909,876	762,645	958,062
Total number of students*	2214			
Cost per student	\$ 8,923	6,283	344	433
				1,863

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

Instruction and Other 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.

MONROE COUNTY SCHOOL DISTRICT
OTHER SUPPLEMENTAL INFORMATION

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

"UNAUDITED"

	<u>2008</u>	<u>2007*</u>	<u>2006*</u>	<u>2005*</u>
Revenues:				
Local sources	S 3,772,639	3,609,696	3,636,550	3,229,103
State sources	11,493,691	11,132,188	10,789,293	10,089,266
Federal sources	226,533	239,084	193,281	280,683
Total Revenues	<u>15,492,863</u>	<u>14,980,968</u>	<u>14,619,124</u>	<u>13,599,052</u>
Expenditures:				
Instruction	10,671,376	10,166,556	9,640,968	8,568,850
Support services	4,807,890	4,783,890	4,864,446	3,886,575
Noninstructional services	1,651	2,529	2,587	1,861
Facilities acquisition and construction	133,950	100,751		37,516
Debt service:				
Interest	3,468	3,830	4,178	4,512
Total Expenditures	<u>15,618,335</u>	<u>15,057,556</u>	<u>14,512,179</u>	<u>12,499,314</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(125,472)</u>	<u>(76,588)</u>	<u>106,945</u>	<u>1,099,738</u>
Other Financing Sources (Uses):				
Inception of capital leases	18,805			
Insurance loss recoveries	6,483	5,490	19,714	2,069
Sale of transportation equipment			16,000	15,050
Sale of other property	5,602		4,904	1,432
Operating transfers in	161,503	1,954,877	288,186	1,756,196
Other financing sources		329		
Operating transfers out	(747,000)	(2,532,412)	(712,030)	(2,051,019)
Other financing uses	(2,533)	(56,781)		(1,500)
Total Other Financing Sources (Uses)	<u>(557,140)</u>	<u>(628,497)</u>	<u>(383,226)</u>	<u>(277,772)</u>
Net Change in Fund Balances	<u>(682,612)</u>	<u>(705,085)</u>	<u>(276,281)</u>	<u>821,966</u>
Fund Balances:				
July 1	<u>2,644,351</u>	<u>3,349,436</u>	<u>3,625,717</u>	<u>2,803,751</u>
June 30	<u>\$ 1,961,739</u>	<u>2,644,351</u>	<u>3,349,436</u>	<u>3,625,717</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

MONROE COUNTY 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	\$ 4,364,741	4,146,527	4,182,043	3,828,576
Intermediate sources	9,000			
State sources	12,400,636	12,034,874	11,692,615	10,946,690
Federal sources	2,063,610	1,929,440	1,847,231	1,842,152
Sixteenth section sources	223,122	200,944	328,339	414,590
Total Revenues	<u>19,061,109</u>	<u>18,311,785</u>	<u>18,050,228</u>	<u>17,032,008</u>
Expenditures:				
Instruction	12,332,527	11,810,916	11,211,453	9,985,416
Support services	5,528,027	5,452,769	5,527,024	4,533,819
Noninstructional services	1,200,823	1,094,500	1,039,756	1,028,760
Sixteenth section	32,863	8,308	32,826	23,885
Facilities acquisition and construction	133,950	423,076		37,516
Debt service:				
Principal	280,000	265,000	255,000	255,000
Interest	165,206	178,654	192,330	206,591
Other	82,145	696	713	730
Total Expenditures	<u>19,755,541</u>	<u>19,233,919</u>	<u>18,259,102</u>	<u>16,071,717</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(694,432)</u>	<u>(922,134)</u>	<u>(208,874)</u>	<u>960,291</u>
Other Financing Sources (Uses):				
Proceeds of refunding bonds	2,995,000			
Inception of capital leases	18,805			
Insurance loss recoveries	6,483	5,490	19,714	2,069
Sale of transportation equipment			16,000	15,050
Sale of other property	6,324		5,299	1,485
Operating transfers in	916,045	2,759,927	1,030,704	2,418,299
Other financing sources		329		
Operating transfers out	(916,045)	(2,759,927)	(1,030,704)	(2,418,299)
Payment to refunded bond escrow agent	(2,913,567)			
Other financing uses	(2,533)	(56,781)		(1,500)
Total Other Financing Sources (Uses)	<u>110,512</u>	<u>(50,962)</u>	<u>41,013</u>	<u>17,104</u>
Net Change in Fund Balances	<u>(583,920)</u>	<u>(973,096)</u>	<u>(167,861)</u>	<u>977,395</u>
Fund Balances:				
July 1	5,478,038	6,452,265	6,617,689	5,638,268
Prior period adjustments			(8,532)	
July 1, as restated	<u>5,478,038</u>	<u>6,452,265</u>	<u>6,609,157</u>	<u>5,638,268</u>
Increase (Decrease) in reserve for inventory	<u>3,522</u>	<u>(1,131)</u>	<u>10,969</u>	<u>2,026</u>
June 30	<u>\$ 4,897,640</u>	<u>5,478,038</u>	<u>6,452,265</u>	<u>6,617,689</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

MONROE COUNTY SCHOOL DISTRICT

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

WATKINS, WARD and STAFFORD
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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
Monroe County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Monroe County School District as of and for the year ended June 30, 2008, which collectively comprise Monroe County School District's basic financial statements and have issued our report thereon dated July 25, 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 a 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 08-01 and 08-02 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of 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, of the significant deficiencies described above, we consider Findings 08-01 and 08-02 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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 certain immaterial instances of noncompliance or other matters that we have reported to management of the school district in a separate letter dated July 25, 2009, which is included in this report.

Monroe County 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 Monroe County 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.

July 25, 2009

Watkins, Ward and Stafford, PLLC

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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
Monroe County School District

Compliance

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

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

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

Internal Control Over Compliance

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

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

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or 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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as Finding 08-03 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as Finding 08-03 to be a material weakness.

Monroe County School District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Monroe County School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the school board and management, 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

July 25, 2009

MONROE COUNTY 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
Monroe County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Monroe County School District as of and for the year ended June 30, 2008, which collectively comprise Monroe County School District's basic financial statements and have issued our report thereon dated July 25, 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 \$18,885 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 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 immaterial instances of noncompliance with other state laws and regulations. Our findings and recommendations and your responses are as follows:

Finding:

During the testing for adequate collateralization, it was noted that on June 30, 2008, the school district opened a new bank account at Renasant Bank and made a large deposit. This account was not listed on the Collateral Sufficiency Analysis statement issued by the State Treasurer, and thus, caused the school district to be inadequately collateralized for that day.

Recommendation:

The School District should take care in reconciling the Collateral Sufficiency Analysis to actual deposit records and be prompt in alerting the financial institution if any accounts held by the school district are not listed on the report. The School District should also alert the financial institution, in advance, when large and unusual deposits are made.

Response:

In the future, care will be taken in reconciling the Collateral Sufficiency Analysis issued by the State Treasurer and all financial institutions will be alerted of any large and unusual deposits.

Finding:

Form 4B was not filed with the Public Employees Retirement Service within five days of reemployment of retirees.

Recommendation:

Section 25-11-127, Miss. Code of 1972, as amended, requires Form 4B to be filed with the Public Employees Retirement Service within five days of reemployment of a retiree.

Response:

In the future, care will be taken to file Form 4B on a timely basis, as required by Section 25-11-127, Miss. Code of 1972, as amended.

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.

The Monroe County School District's responses to the findings included in this report were not audited 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

July 25, 2009

MONROE COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

Section 1: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

- | | | |
|-----|--|-------------|
| 4. | Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 5. | Internal control over major programs: | |
| | a. Material weakness(es) identified? | No |
| | b. Significant deficiency (ies) identified that are not considered to be material weaknesses? | Yes |
| 6. | Any audit finding(s) reported as required by Section ____.510(a) of Circular A-133? | No |
| 7. | Federal programs identified as major programs: | |
| | a. Child Nutrition Cluster | |
| | CFDA # 10.553 | |
| | CFDA # 10.555 | |
| | b. Title I Grants to Local Agencies | |
| | CFDA # 84.010 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | Yes |
| 10. | Prior fiscal year audit 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? | No |

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

Section 2: Financial Statement Findings

Significant deficiencies considered to be material weaknesses

Finding 08-01 Condition

During the testing for unrecorded liabilities, it was noted that several expenditures paid after year-end, but dated during the current year, were not recorded as a claim payable.

Criteria

It is the responsibility of the School District's Management to implement controls and procedures to insure that all invoices presented for payment are included in the correct reporting period. It is also the responsibility of the School District's Management to implement proper segregation of duties to insure that a single employee is not preparing, processing, signing and mailing accounts payable checks.

Cause of condition

The Accounts Payable Clerk is entering vendors, preparing the claims payable, signing the checks for payment and distributing the checks. As a result of a lack of proper segregation of duties, invoices were entered in the wrong year.

Effect of condition

A control deficiency exists due to the lack of controls and procedures necessary to insure that all invoices are processed in a timely manner and recorded in the correct period.

Recommendation

The claims payable should be prepared by the accounts payable clerk and then reviewed, approved and signed by another employee. The signature stamp should be in the possession of someone other than the accounts payable clerk.

Client Response

The Business Manager and the Accounts Payable Clerk will, in the future, request that all invoices from each school be submitted to the business office in a timely manner. Also, the Superintendent will sign all checks and in his absence the Business Manager will be placed in charge of the signature stamp. Currently, the signature stamp is in the possession of the Superintendent.

Finding 08-02 Condition

During the course of the audit, it was noted that an improper payroll check in the amount of \$53,820 was prepared, processed, signed and distributed to an employee without being detected.

Criteria

It is the responsibility of the School District's Management to implement proper segregation of duties to insure that a single employee is not preparing, processing, signing and distributing payroll checks.

MONROE COUNTY SCHOOL DISTRICT
Schedule of Findings and Question Costs
For the Year Ended June 30, 2008

Cause of condition

The Payroll Clerk inadvertently entered the incorrect pay for an employee. The payroll was then processed, signature stamped and then distributed by the same employee. Upon receiving the incorrect check, the employee returned the check and the payroll was voided.

Effect of condition

A control deficiency exists due to the lack of proper segregation of duties and oversight of the payroll function.

Recommendation

First of all, the signature stamp should be in the possession of someone other than the person who prepares the payroll checks. Secondly, the payroll should be reviewed, approved and signed by someone other than the payroll clerk prior to distribution.

Client Response

The signature stamp is currently in the possession of the superintendent and in his absence the Business Manager will be placed in charge of the signature stamp.

Significant deficiency not considered to be a material weakness.

Finding 08-03 Condition

Interest earned on Title I funds was not returned to the federal agency as required by the Cash Management Act and A-102 Common Rule.

Criteria

The Cash Management Act and A-102 Common Rule requires that all interest earned on federal funds be returned to the appropriate federal agency.

Cause of condition

The School District failed to return \$186.85 of interest earned on Title I funds to the appropriate federal agency.

Effect of condition

Failure to return the interest earned on the Title I funds resulted in the School District's noncompliance with the Cash Management Act and A-102 Common Rule.

Recommendation

In the Future, care should be taken in order to return all interest earned on federal funds to the appropriate federal agency.

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

Client Response

A check was written on June 30, 2009 in the amount of \$186.85 and payable to MS State Dept. to the attention of Melba Beasley, Director of Federal Financial Management. Title I funds no longer have separate checking accounts and they will be monitored more closely in the future.