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QUITMAN SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

Quitman School District

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FINANCIAL AUDIT REPORT

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Stephen D. Myrick C.P.A., L.L.C.

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Member
American Institute of
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Member
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Certified Public Accountants

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

Superintendent and School Board
Quitman School District

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

I conducted my 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 I 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. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Quitman 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*, I have also issued my report dated November 18, 2008, on my consideration of the Quitman School District's internal control over financial reporting and my 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 my 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 my audit.

The Management's Discussion and Analysis on pages 5 through 12 and the Budgetary Comparison Schedule and corresponding notes on pages 41 through 45 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I 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, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Quitman School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, and is not a required part of the basic financial statements. In addition, the Schedule of Instructional, Administrative and Other Expenditures – Governmental Funds is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The accompanying Statement of Revenues, Expenditures and Changes in Fund Balances – All Governmental Funds and Statement of Revenues, Expenditures and Changes in Fund Balances – General Fund for the last four years included in the "Other Information" section has presented certain information for fiscal years 2007 thru 2005 which has not been subjected to the auditing procedures applied in the audit of the basic financial statements for the current year, accordingly, I express no opinion on them.

Stephen D. Myrick
Certified Public Accountant

November 18, 2008
Quitman, Mississippi

MANAGEMENT'S DISCUSSION AND ANALYSIS

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QSD

Quitman School District

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Quitman, MS 39355
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QUITMAN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008

The discussion and analysis of Quitman 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.

The primary mission of the Quitman School District is to provide a quality educational program that recognizes the wide range of learning capabilities, backgrounds, needs, and interests of students with the secondary mission of providing opportunities for learning and involvement for citizens residing within the school community.

Quitman School District is one of two school districts located in Clarke County, Mississippi, which has a total population of 17,955 according to the 2000 census. The total net enrollment of the district for the FY 2007 and 2008 year was 2,225 and 2,087, respectively, which represents a slight decrease in enrollment between the two years and a 10% decline in the last four years.

Quitman School District operates five schools: 1) Quitman Lower Elementary, 2) Quitman Upper Elementary, 3) Quitman Junior High, 4) Quitman High School, and 5) Clarke County Career and Technology Center. The district has a workforce of approximately 361 employees. Of that number, 158 are certified teachers working in the classroom. Many new programs are added each year in an effort to assist students with different learning needs and abilities. These new programs often require the addition of staff or the re-organization of programs, thus lending to increases in the use of district resources.

Suzanne C. Hawley, Ed. D., Superintendent • Steven C. Hampton, Activities/Athletic/Personnel • Wendy C. Tucker, Child Nutrition

Karen E. Chisolm, Curriculum • Elisa A. Mayo, Finance • Joe Edwards, Transportation • Ronnie G. Cook, Maintenance

Greg Fleming, 16th Section/Testing/Federal Programs • John Korzenko, Technology • Pamela D. Compton, Ed. D., Special Education

FINANCIAL HIGHLIGHTS

- Total net assets decreased $786,057, which represents 5% decrease from fiscal year 2007. This decrease is due to expenses of the district outpacing revenue growth. Net assets from fiscal year 2006 to 2007 were down 10%, therefore, the decrease in net assets is continuing but has slowed as the district's administration works toward stronger management of the district's limited resources while maintaining a low tax base for the county's taxpayers.

- General revenues account for $13,732,349 in revenue, or 73.9% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for $4,839,291 or 26.1% of total revenues.

- The District had $19,357,697 in expenses; only $4,839,291 was offset by program specific charges for services, grants and contributions. General revenues of $13,732,349 were adequate to provide for these services.

- Among major funds, the General Fund had $13,694,233 in revenues and $14,325,676 in expenditures. The General Fund's balance decreased $1,140,804 from the prior year. This decrease can be attributed largely to an increase in spending for the instructional programs, as well as, support services of the district combined with ad valorem tax growth that has not met the increasing needs of the school. In addition, state funding has not increased sufficiently to cover required personnel costs to keep the district competitive in the educational environment and offer unique opportunities to the district's school children.

- Capital assets, net of accumulated depreciation, increased by $2,452,632. This increase is due largely to the addition of a science building on the high school campus and a arts building/gymnatorium on the upper elementary campus.

- Long-term debt decreased by $314,548 due to the payment of notes due.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

The government-wide financial statements can be found on pages 15-16 of this report.

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

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

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

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

The basic governmental fund financial statements can be found on pages 17 and 19, respectively, 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 Net Assets and Statement of Changes in Fiduciary Net Assets on pages 21-22.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23-38 of this report.

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

The District adopts an annual operating budget for all governmental funds. Budgetary comparisons have been provided for the General Fund and each additional major fund. This required supplementary information can be found on page 41-45 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Circular A-133 and can be found on page 49 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 $14,657,621 as of June 30, 2008.

The largest portion of the District's net assets (61%) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment, leased property under capital leases and construction in progress, less any related debt used to acquire those assets that is still outstanding). The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

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

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

	Net Assets		Percentage
	June 30, 2008	June 30, 2007	Change
Current assets	$ 6,192,658	$ 9,539,950	-35.09%
Capital assets, net	12,558,778	10,106,146	24.27%
Total assets	**18,751,436**	**19,646,096**	**-4.55%**
Current liabilities	$450,225	389,275	15.66%
Long-term debt outstanding	3,643,590	3,813,143	-4.45%
Total liabilities	**4,093,815**	**4,202,418**	**-2.58%**
Net assets:			
Invested in capital assets, net of related debt	6,936,264	6,190,579	44.35%
Restricted	2,356,969	5,435,847	-56.64%
Unrestricted	3,364,388	3,817,252	-11.86%
Total net assets	**$ 14,657,621**	**$ 15,443,678**	**-5.09%**

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

- A 33% decrease in cash, which is a result of expending the 3 mill note proceeds for the construction project at the high school and upper elementary.
- The increase in net assets due to the construction project that was on-going as of June 30, 2008.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2008 were $18,571,640. The total cost of all programs and services was $19,357,697. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2007 and 2008.

	Change in Net Assets		Percentage
	June 30, 2008	June 30, 2007	Change
Revenues:			
Program revenues:			
Charges for services	$ 659,228	$ 766,127	-13.95%
Operating grants and contributions	4,180,063	3,425,030	22.04%
Capital grants and contributions	-	36,481	100.00%
General revenues:			
Property taxes	2,657,644	2,143,124	24.01%
Grants and contributions not restricted	10,692,971	10,070,333	6.18%
Other	381,734	443,855	-14.00%
Total revenues	18,571,640	16,884,950	9.99%
Expenses:			
Instruction	10,470,661	9,768,104	7.19%
Support services	7,439,408	7,548,361	-1.44%
Non-instructional	1,263,669	1,206,642	4.73%
Sixteenth section	22,863	73,686	-68.97%
Interest and other expense on long-term liabilities	161,096	5,598	2777.74%
Total expenses	19,357,697	18,602,391	4.06%
Increase (Decrease) in net assets	(786,057)	(1,717,441)	-54.23%
Net Assets, July 1	15,443,678	17,161,119	-10.01%
Net Assets, June 30	$ 14,657,621	$ 15,443,678	-5.09%

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

- An increase in revenue received from state sources as unrestricted grants and contributions.
- An increase in revenue as it pertains to operating grants and contributions.
- An increase in revenues from taxes for both general purpose and debt purpose.
- An increase in interest on long-term liabilities and the 3 mill note begins to be repaid.
- A decrease in sixteenth section expenses.

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

	2008 Total Expenses	2008 Net (Expense)Revenue	2007 Expenses	2007 Net (Expense) Revenue
Instruction	$ 10,470,661	$ (8,021,574)	$ 9,768,104	$ (7,510,119)
Support services	7,439,408	(6,639,398)	7,548,361	(6,441,190)
Non-instructional	1,263,669	(313,693)	1,206,642	(344,160)
Sixteenth section	22,863	617,355	73,686	(73,686)
Interest on long-term liabilities	161,096	(161,096)	5,598	(5,598)
Total expenses	$ 19,357,697	$ (14,518,406)	$ 18,602,391	$ (14,374,753)

- Net cost of governmental activities ($14,518,406) was financed by general revenue, which is made up primarily of property taxes ($2,657,644) and unrestricted state and federal revenue ($10,692,971).

- Investment earnings accounted for $277,164 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 $5,871,751, a decrease of $3,551,292 from the previous year. This decrease is due largely to the expenditure of proceeds from the three mill note that was issued during the 2007 fiscal year. $4,642,275 or 79% of the fund balance for fiscal year 2008 constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of $1,229,476 or 21% 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 fiscal year 2008 was $1,140,804 a result of a decrease in assets, specifically cash and cash equivalents held by the district. The fund balance of the Construction fund showed a decrease of $2,811,818 as a result of the construction of new classrooms and a gymnatorium at the Upper Elementary. The fund balance of the 16th Section Principal and 16th Section Interest Funds and Other Governmental Funds showed an increase of $401,330 from the previous fiscal year as a result of a holding sixteenth section revenue in the other governmental funds instead of transferring it out into the general fund prior to year end.

BUDGETARY HIGHLIGHTS

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

- Budgeted amounts for revenue were below the amounts actually collected. This difference is due to not budgeting 5% of state revenues into the original budget allocation as a tool to increase the district's operating leverage in future fiscal years.
- Budged amounts for expenditures as a whole were above the actual amount spent. This makes for a positive variance as the district plans for the unexpected expenses of the school year.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2008, the District's total capital assets were $21,775,116, including land, construction in progress, school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of $2,994,722 from the previous year. Total accumulated depreciation as of June 30, 2008 was $9,216,338 and total depreciation expense for the year was $585,090, resulting in total net assets of $12,558,778. Total net assets for the previous fiscal year were $10,106,146.

	Capital Assets, Net of Depreciation		Percentage
	2008	2007	Change
Land	$ 174,918.00	$ 174,918.00	0.00%
Construction in progress	$ 3,043,019.00	$ 176,909.00	1620.10%
Buildings	5,023,283.00	5,149,484.00	-2.45%
Building improvements	2,703,535.00	2,876,939.00	-6.03%
Improvements other than buildings	286,173.00	308,247.00	-7.16%
Mobile equipment	850,231.00	936,064.00	-9.17%
Furniture and equipment	189,748.00	167,086.00	13.56%
Leased property under capital leases	287,871.00	316,499.00	-9.05%
Total	$ 12,558,778.00	$ 10,106,146.00	**24.27%**

Additional information of the District's capital assets can be found in Note 5 on page 33 of this report.

Debt Administration. At June 30, 2008, the District had $3,810,396 in general obligation bonds and other long-term debt outstanding, of which $166,804 is due within one year. This is a decrease in debt of $314,548 from the previous fiscal year.

	Outstanding Debt		Percentage
	2008	2007	Change
Certificates of participation payable	$ -	$ 155,000.00	-100.00%
Three mill notes payable	3,660,000.00	3,800,000.00	-3.68%
Other loans payable	38,237.00	49,161.00	-22.22%
Compensated absences payable	112,159.00	120,783.00	-7.14%
Total	$ 3,810,396.00	$ 4,124,944.00	

The District does not have a bond rating.

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

CURRENT ISSUES

The Quitman School District is currently financially stable.

The District has committed itself to financial excellence for many years. The millage rate has increased by 7.01 mills over 10 years. For FY2007, the rate was 39.08 mills, far below the 55-mill cap set by the legislature. The millage rate for FY2008 was 39 mills. The millage rate is used to assess ad valorem taxes for the county in which the school district operates. In addition, the District's system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

Student enrollment figures have been declining since 1998, however the district continues to offer new methods of teaching and learning to students as they seek a world-class education within the district's doors. The district has also diversified its offering through numerous grant sources and continues to use these dollars in an effort to meet the growing demands of the educational environement. The School District is in school improvement status, which will impact the manner in which funding is used for instructional purposes. A variation of instructional methods is currently being used to meet the needs of every child and research is on-going to track the progress of these methods and their impact on student achievement.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Quitman School District, 104 East Franklin Street, Quitman, MS 39355.

FINANCIAL STATEMENTS

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Exhibit A

QUITMAN SCHOOL DISTRICT
Statement of Net Assets
June 30, 2008

	Governmental Activities
Assets:	
Cash and cash equivalents	$ 4,841,986
Due from other governments	573,099
Other receivables, net	14,247
Inventories	25,617
Deferred charges	37,486
Restricted assets	700,223
Capital assets, not being depreciated:	
Land	174,918
Construction in progress	3,043,019
Capital assets, net of accumulated depreciation:	
Buildings	5,023,283
Building improvements	2,703,535
Improvements other than buildings	286,173
Mobile equipment	850,231
Furniture and equipment	189,748
Leased property under capital leases	287,871
Total Assets	$ 18,751,436
Liabilities:	
Accounts payable and accrued liabilities	$ 275,170
Unearned revenue	8,250
Long-term liabilities, due within one year	
Capital related liabilities	150,000
Non-capital related liabilities	16,805
Long-term liabilities, due beyond one year	
Capital related liabilities, net	3,510,000
Non-capital related liabilities	133,590
Total Liabilities	$ 4,093,815
Net Assets:	
Investment in capital assets, net of related debt	8,936,264
Restricted net assets:	
Expendable:	
School-based activites	535,808
Debt service	17,895
Capital improvements	798,291
Forestry improvements	261,247
Unemployment benefits	43,505
Non-expendable:	
Sixteenth section	700,223
Unrestricted	3,364,388
Total Net Assets	$ 14,657,621

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

Exhibit B

QUITMAN SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Primary Government Governmental Activities
Governmental Activities:					
Instruction	$ 10,470,661	$ 617,604	$ 1,831,483	$ -	$ (8,021,574)
Support services	7,439,408	-	800,010	-	(6,639,398)
Non-instructional	1,263,669	41,624	908,352	-	(313,693)
Sixteenth section	22,863	-	640,218	-	617,355
Interest on long-term liabilities	161,096	-	-	-	(161,096)
Total governmental activities	$ 19,357,697	$ 659,228	$ 4,180,063	$ -	(14,518,406)
General Revenues:					
Taxes:					
General purpose levies					2,469,659
Debt purpose levies					187,985
Unrestricted grants and contributions:					
State					10,645,771
Federal					47,200
Unrestricted investment earnings					277,164
Sixteenth section sources					104,570
Total General Revenues					13,732,349
Change in Net Assets					(786,057)
Net Assets - Beginning					15,443,678
Net Assets - Ending					$ 14,657,621

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

Exhibit C

QUITMAN SCHOOL DISTRICT
Balance Sheet - Governmental Funds
June 30, 2008

	Major Funds					
	General Fund	Construction Fund	16th Section Interest	16th Section Principal	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	$ 2,648,259	$ 979,210	$ 689,532	$ 700,223	$ 524,985	$ 5,542,209
Due from other governments	234,997	-	-	-	338,103	573,100
Other receivables	3,712	70	-	-	-	3,782
Due from other funds	14,370	-	-	-	-	14,370
Inventories	-	-	-	-	25,617	25,617
Total Assets	$ 2,901,338	$ 979,280	$ 689,532	$ 700,223	$ 888,705	$ 6,159,078
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities	$ 54,529	$ 180,989	$ 21,142	$ -	$ 17,041	$ 273,701
Due to other funds	417	-	-	-	3,488	3,905
Unearned revenue	-	-	-	-	8,250	8,250
Other payables	-	-	-	-	1,471	1,471
Total Liabilities	54,946	180,989	21,142	-	30,250	287,327
Fund Balances:						
Reserved for:						
Inventory	-	-	-	-	25,617	25,617
Capital projects	-	180,989	-	-	-	180,989
Debt service	-	-	-	-	17,895	17,895
Unemployment benefits	-	-	-	-	43,505	43,505
Forestry improvement purposes	-	-	-	-	261,247	261,247
Permanent fund purposes	-	-	-	700,223	-	700,223
Unreserved:						
Undesignated, reported in:						
General fund	2,846,392	-	-	-	-	2,846,392
Special revenue funds	-	-	668,390	-	510,191	1,178,581
Capital projects fund	-	617,302	-	-	-	617,302
Total Fund Balances	2,846,392	798,291	668,390	700,223	858,455	5,871,751
Total Liabilities and Fund Balances	$ 2,901,338	$ 979,280	$ 689,532	$ 700,223	$ 888,705	$ 6,159,078

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

Exhibit C-1

QUITMAN SCHOOL DISTRICT
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2008

		Amount
Total Fund Balances - Governmental Funds		$ 5,871,751
Amounts reported for governmental activities in the statement of net assets are different because:		
1.	Issuance costs for long-term liabilities are reported as expenditures in the governmental funds, but are deferred and amortized in the Statement of Activities.	37,486
2.	Capital assets are used in governmental activities and are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of $9,216,338.	12,558,778
3.	Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(3,810,395)
4.	Rounding	1
Total Net Assets - Governmental Activities		$ 14,657,621

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

Exhibit D

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

	Major Funds				Other	Total
	General Fund	Construction Fund	16th Section Interest	16th Section Principal	Governmental Funds	Governmental Funds
Revenues:						
Local sources	2,946,807	$ 109,008	$ -	$ -	$ 538,221	$ 3,594,036
State sources	10,662,130	-	-	-	373,164	11,035,294
Federal sources	85,296	-	-	-	3,112,225	3,197,521
Sixteenth section sources	-	-	610,166	30,051	104,570	744,787
Total Revenues	13,694,233	109,008	610,166	30,051	4,128,180	18,571,638
Expenditures:						
Instruction	8,125,823	54,716	-	-	2,021,894	10,202,433
Support services	6,176,429	-	-	-	1,081,313	7,257,742
Noninstructional services	-	-	-	-	1,292,949	1,292,949
Sixteenth section	-	-	1,477	-	21,386	22,863
Facilities acquisition and construction	12,500	2,866,110	-	-	-	2,878,610
Debt service:						
Principal	10,924	-	-	-	295,000	305,924
Interest	-	-	-	-	161,096	161,096
Total Expenditures	14,325,676	2,920,826	1,477	-	4,873,638	22,121,617
Excess (Deficiency) of Revenues over Expenditures	(631,443)	(2,811,818)	608,689	30,051	(745,458)	(3,549,979)
Other Financing Sources (Uses):						
Operating transfers in	1,896,185	-	-	1,233	1,024,801	2,922,219
Operating transfers out	(2,404,233)	-	-	-	(517,986)	(2,922,219)
Other financing uses	(1,313)	-	-	-	-	(1,313)
Total other financing sources (uses)	(509,361)	-	-	1,233	506,815	(1,313)
Net Change in Fund Balances	(1,140,804)	(2,811,818)	608,689	31,284	(238,643)	(3,551,292)
Fund Balances:						
July 1, 2007	3,987,196	3,610,109	59,701	668,939	1,097,098	9,423,043
June 30, 2008	$ 2,846,392	$ 798,291	$ 668,390	$ 700,223	$ 858,455	$ 5,871,751

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

Exhibit D-1

QUITMAN 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

	Amount
Net Change in Fund Balances - Governmental Funds	$ (3,551,292)
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 asset purchases amounted to $3,068,281, the depreciation expense amounted to $585,090, loss on sale of assets amounted to $30,559.	2,452,632
2. Amortization of issuance cost for long-term liabilities reported as expenditures expenditures in the year of issuance in the governmental funds, but is deferred and amortized in the Statement of Activities.	(1,947)
3. 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 Net Assets.	305,924
4. Some expenses reported in the Statement of Activites do not require the use of current financial resources and are not reported as expenditures in governmental funds. These include a net decrease in compensated absences.	8,624
5 Rounding	2
Change in Net Assets of Governmental Activities	$ (786,057)

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

Exhibit E

QUITMAN SCHOOL DISTRICT
Statement of Fiduciary Net Assets
June 30, 2008

	Private-Purpose Trust Funds	Agency Funds
Assets:		
Cash and cash equivalents	$ 280	$ 681,133
Total assets	$ 280	$ 681,133
Liabilities:		
Accounts payable and accrued liabilities	$ -	$ 646,166
Due to other funds	-	10,465
Due to student clubs	-	24,502
Total liabilities	$ -	$ 681,133
Net assets		
Reserved for endowments	$ 280	

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

Exhibit F

QUITMAN SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets
For the Year Ended June 30 2008

	Private-Purpose Trust Funds
Additions	
Contributions and donations from private sources	$ 280
Total additions	280
Deductions	
Scholarships awarded	732
Total deductions	732
Change in net assets	(452)
Net assets	
July 1, 2007	732
June 30, 2008	$ 280

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

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 where each member was elected by the citizens of each defined county district.

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

The Authority is governed by a three member board, which is appointed by the school district's governing board. Although it is legally separate from the school district, it is reported as if it is part of the primary government because its sole purpose is to provide financing for the renovation, improvement, construction, and equipping of certain school facilities. Therefore, all of the Authority's assets, liabilities, equity, revenues, expenditures and other financing sources and uses have been included in the government-wide financial statements of the school district (see Note 12).

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 the nonfiduciary activities of the school 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 school district's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

1. Summary of Significant Accounting Policies (Continued)

1. *Invested in capital assets, net of related debt*, consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction, or improvement of those assets.

2. *Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

3. *Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

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

Fund Financial Statements:

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

The school district reports the following major governmental funds:

General Fund – This is the school district's primary operating fund. It accounts for all financial resources of the school district, except those required to be accounted for in another fund.

Construction Fund – This fund accounts for the school district's revenues and expenditures associated with renovation and addition of certain classrooms and other facilities at the upper elementary and high school buildings.

Sixteenth Section Interest - This special revenue fund is used to account for expendable revenue earned from sixteenth section lands and related expenditures.

1. Summary of Significant Accounting Policies (Continued)

Sixteenth Section Principal - This permanent fund is used to account for nonexpendable revenues earned from sixteenth section lands and investments of those nonexpendable revenues.

All other governmental funds not meeting these 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 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 school district's programs.

FIDUCIARY FUNDS

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

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

C. Measurement Focus and Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting as are the Fiduciary Fund financial statements. Revenues are recognized when earned and expenses are recorded when the liability is incurred or the economic asset used, regardless of the timing of the related cash flows.

1. Summary of Significant Accounting Policies (Continued)

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 available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the district considers revenues 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 the 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 levying authority.

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

D. Account Classifications

The account classifications used in the financial statements conform to the broad classifications recommended in the *Governmental Accounting, Auditing, and Financial Reporting* as issued in 2005 by the Governmental 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.

1. Summary of Significant Accounting Policies (Continued)

E. Encumbrances

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

F. Assets, liabilities, and net assets or equity

1. Cash, Cash Equivalents and Investments

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

Investments

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

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

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

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the noncurrent 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.

1. Summary of Significant Accounting Policies (Continued)

3. Due from Other Governments

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

4. Inventories and Prepaid Items

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

Prepaid items, such as prepaid insurance, are not reported for governmental fund types since the 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 school 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 reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Donated assets are reported at estimated fair 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 school 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.

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

1. Summary of Significant Accounting Policies (Continued)

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

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

7. Compensated Absences

Employees of the school district accumulate sick leave at a minimum amount as required by state law or at a greater amount provided by school district policy. Some employees are allowed personal leave and/or vacation leave in accordance with school district policy. The district pays for unused leave for employees as required by Section 37-7-307(5), Miss. Code Ann. (1972).

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

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

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

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures. See Note 6 for details.

1. Summary of Significant Accounting Policies (Continued)

9. Fund Equity

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

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

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

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

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

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

Reserved for unemployment benefits – An account that represents the portion of 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 – designated for, reported in capital projects funds – An account that represents a portion of the unreserved fund balance that the school board has specifically obligated for future repairs, renovations, and construction projects of district buildings and facilities.

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

2. Cash and Cash Equivalents.

The district follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Restrictions on deposits 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 district's deposits in financial institutions is held in the name of the State of Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

Cash and Cash Equivalents

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was $5,542,209 and $681,413, respectively. The carrying amount of deposits in the government-wide statements was: Cash and cash equivalents $4,841,986. The bank balance was $7,746,115.

Custodial Credit Risk – Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2008, none of the district's bank balance of $7,746,115 was exposed to custodial credit risk.

3. Interfund Transactions and Balances

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

	Due From	Due To
Government Funds:		
General fund	$ 14,370	$ 417
Other governmental funds	-	3,488
Fiduciary	-	10,465
Total funds	$ 14,370	$ 14,370

The purpose of the above loans represent the recording of indirect costs in federal grants, loans for working capital and interest earned in agency funds that will be transferred to the district maintenance.

B. Transfers In/Out:

	Transfer In	Transfer Out
Government Funds:		
General fund	$ 1,896,185	$ 2,404,233
Sixteenth Section Principal	1,233	-
Other governmental funds	1,024,801	517,986
Total funds	$ 2,922,219	$ 2,922,219

The principal purpose of interfund transfers was to provide operating funds to other governmental funds from district maintenance, to pay indirect costs of federal grants and administrative costs of the alternative school. All interfund transfers were routine and consistent with the activities of the fund making the transfer.

4. Restricted Assets

The restricted assets represent the cash balance totaling $700,223 of the 16th Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the school district's programs.

5. Capital Assets

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

	Balance 7/1/07	Additions	Retirements	Adjustments	Balance 6/30/08
Non-depreciable capital assets:					
Land	$ 174,918	$ -	$ -	$ -	$ 174,918
Construction in progress	176,909	2,866,110	-	-	3,043,019
Total non-depreciable capital assets	351,827	2,866,110	-	-	3,217,937
Depreciable capital assets:					
Buildings	8,823,933	-	-	-	8,823,933
Building improvements	4,635,110	12,500	-	-	4,647,610
Improvements other than buildings	513,166	-	(3,522)	-	509,644
Mobile Equipment	2,697,350	64,968	-	-	2,762,318
Furniture and equipment	1,039,991	124,703	(70,037)	-	1,094,657
Leased property under capital leases	719,017	-	-	-	719,017
Total depreciable capital assets	18,428,567	202,171	(73,559)	-	18,557,179
Less accumulated depreciation for:					
Buildings	(3,674,449)	(126,201)	-	-	(3,800,650)
Building improvements	(1,758,171)	(185,904)	-	-	(1,944,075)
Improvements other than buildings	(204,919)	(20,386)	1,834	-	(223,471)
Mobile Equipment	(1,761,286)	(150,801)	-	-	(1,912,087)
Furniture and equipment	(872,905)	(73,170)	41,166	-	(904,909)
Leased property under capital leases	(402,518)	(28,628)	-	-	(431,146)
Total accumulated depreciation	(8,674,248)	(585,090)	43,000	-	(9,216,338)
Total depreciable capital assets, net	9,754,319	(382,919)	(30,559)	-	9,340,841
Governmental activities capital assets, net	$ 10,106,146	$ 2,483,191	$ (30,559)	$ -	$ 12,558,778

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	$ 293,581
Support services	273,716
Non-instructional	17,793
Total depreciation expense	$ 585,090

The capital assets include significant amount of buildings which have been valued at estimated historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition.

5. Capital Assets (Continued)

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

	Remaining Commitment	Required Future Financing
High school addition and upper elementary addition and renovation	$ 180,989	$ -
Total	$ 180,989	$ -

Construction projects included in governmental activities are funded with the Construction Fund.

6. Long-term Liabilities

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

	Balance 7/1/07	Additions	Reductions	Balance 6/30/08	Amounts due within one year
A. Certificates of participation payable	$ 155,000	$ -	$ 155,000	$ -	$ -
B. Three mill notes payable	3,800,000	-	140,000	3,660,000	150,000
C. Other loans payable	49,161	-	10,924	38,237	10,924
D. Compensated absences payable	120,783	-	8,624	112,159	5,881
Total	$ 4,124,944	$ -	$ 314,548	$ 3,810,396	$ 166,805

A. Certificates of participation

As more fully explained in Notes 1(A) and 10, certificates of participation have been issued by the school district. Certificates of participation currently outstanding are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Certificates of participation school lease	5.50%	7/15/1993	7/15/2008	$ 800,000	$ -
Total				$ 800,000	$ -

6. Long-term Liabilities (Continued)

B. Three mill notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Limited tax notes, series 2007	2.90% - 1.73%	4/15/2007	4/15/2017	$ 3,800,000	$ 3,660,000
Total				$ 3,800,000	$ 3,660,000

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

Year Ending June 30	Principal	Interest	Total
2009	$ 150,000	$ 149,834	$ 299,834
2010	155,000	142,334	297,334
2011	165,000	134,584	299,584
2012	170,000	126,334	296,334
2013	180,000	117,834	297,834
2014-2018	985,000	463,041	1,448,041
2019-2023	1,070,000	266,438	1,336,438
2024-2027	785,000	75,187	860,187
	$ 3,660,000	$ 1,475,585	$ 5,135,585

This debt will be retired from the Three Mill Note fund.

C. Other loans payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Asbestos Promissory Note	0%	7/12/1993	11/1/2011	$ 2,685,000	$ 38,237
				$ 2,685,000	$ 38,237

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

Year Ending June 30	Principal	Interest	Total
2009	10,924		10,924
2010	10,924		10,924
2011	10,924		10,924
2012	5,465		5,465
	$ 38,237	$ -	$ 38,237

This debt will be retired from the General Fund.

6. Long-term Liabilities (Continued)

D. Compensated absences payable

As more fully explained in Note 1(O), compensated absence 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.

E. Deferred Charges

Deferred charges represent bond issuance costs in the original amount of $39,920, net of accumulated amortization of $2,434.

7. Other Commitments

Commitments under construction contracts are described in Note 5.

8. 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 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 $1,271,143, $1,144,676, and $1,071,840, respectively, which equaled the required contributions for each year.

9. Sixteenth Section Lands

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

9. Sixteenth Section Lands (Continued)

The following are 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 Ended June 30	Amount
2009	$ 42,311
2010	42,311
2011	42,199
2012	4,353
2013	4,353
2014-2018	21,765
2019-2023	21,765
2024-2028	21,765
2029-2033	17,949
2034-2038	2,685
2039-2043	1,611
Total	$ 223,067

10. Contingencies

Federal Grants – The school district has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources of allowable purposes. Any disallowances resulting from the grantor audit may become a liability 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 Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately ninety-five school districts and one community college and covers risks of loss arising from injuries to the school district'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

11. Risk Management (Continued)

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 up 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 school district has not had an additional assessment for excess losses incurred by the pool.

12. Trust Certificates

A trust agreement dated July 15, 1993, was executed by and between the school district and The Peoples Bank of Biloxi, as trustee.

The trust agreement authorized the issuance of trust certificates in the principal amount $800,000. These certificates were paid off during the current fiscal year. Approximately, $786,092 was used to provide financing for the construction and renovation of school buildings and related facilities and equipment (the "project"); the remainder of approximately $13,908 was used to pay the cost of issuance.

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION

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

	Budgeted Amounts		Actual	Variances Positive (Negative)	
	Original	Final	(GAAP) Basis	Original to Final	Final to Actual
Revenues:					
Local sources	$ 2,562,502	$ 3,046,062	$ 2,946,807	$ 483,560	$ (99,255)
State sources	10,147,351	10,562,875	10,662,130	415,524	99,255
Federal sources	98,478	85,296	85,296	(13,182)	-
Total revenues	12,808,331	13,694,233	13,694,233	885,902	-
Expenditures:					
Instruction	8,500,290	8,125,823	8,125,823	374,467	-
Support services	6,491,185	6,176,429	6,176,429	314,756	-
Facilities acquisition and construction	-	12,500	12,500	(12,500)	-
Debt service:					
Principal	35,574	10,924	10,924	24,650	-
Total expenditures	15,027,049	14,325,676	14,325,676	701,373	-
Excess (Deficiency) of revenues over expenditures	(2,218,718)	(631,443)	(631,443)	1,587,275	-
Other Financing Sources (Uses):					
Operating transfers in	1,646,212	1,577,556	1,896,185	(68,656)	318,629
Operating transfers out	(2,053,952)	(2,087,811)	(2,404,233)	(33,859)	(316,422)
Other financing uses	-	-	(1,313)	-	(1,313)
Total other financing sources (uses)	(407,740)	(510,255)	(509,361)	(102,515)	894
Net change in fund balances	(2,626,458)	(1,141,698)	(1,140,804)	1,484,760	894
Fund Balances:					
July 1, 2007	4,151,048	4,305,826	3,987,196	154,778	(318,630)
June 30, 2008	$ 1,524,590	$ 3,164,128	$ 2,846,392	$ 1,639,538	$ (317,736)

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

QUITMAN SCHOOL DISTRICT
Budgetary Comparison Schedule
Construction Fund
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variances Positive (Negative)	
	Original	Final	(GAAP) Basis	Original to Final	Final to Actual
Revenues:					
Local Sources	$ -	$ 109,008	$ 109,008	$ 109,008	$ -
Total Revenues	-	109,008	109,008	109,008	-
Expenditures:					
Instruction	-	-	54,716	-	(54,716)
Facilities acquisition and construction	3,676,386	2,739,838	2,866,110	936,548	(126,272)
Total Expenditures	3,676,386	2,739,838	2,920,826	936,548	(180,988)
Net Change in Fund Balances	(3,676,386)	(2,630,830)	(2,811,818)	1,045,556	(180,988)
Fund Balances:					
July 1, 2007	3,676,386	3,610,109	3,610,109	(66,277)	-
June 30, 2008	$ -	$ 979,279	$ 798,291	$ 979,279	$ (180,988)

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

QUITMAN SCHOOL DISTRICT
Budgetary Comparison Schedule
16th Section Interest
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variances Positive (Negative)	
	Original	Final	(GAAP) Basis	Original to Final	Final to Actual
Revenues:					
Sixteenth Section	$ 561,670	$ 610,166	$ 610,166	$ 48,496	$ -
Total Revenues	561,670	610,166	610,166	48,496	-
Expenditures:					
Sixteenth Section	3,020	1,477	1,477	1,543	-
Total Expenditures	3,020	1,477	1,477	1,543	-
Excess (Deficiency) of revenues over Expenditures	558,650	608,689	608,689	50,039	-
Other financing sources (uses):					
Operating transfers in	28,500	-	-	28,500	-
Operating transfers out	(86,000)	-	-	(86,000)	-
Total Other Financing Sources (Uses)	(57,500)	-	-	(57,500)	-
Net Change in Fund Balances	501,150	608,689	608,689	107,539	-
Fund Balances:					
July 1, 2007	57,555	59,701	59,701	2,146	-
June 30, 2008	$ 558,705	$ 668,390	$ 668,390	$ 109,685	$ -

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

QUITMAN SCHOOL DISTRICT
Budgetary Comparison Schedule
16th Section Principal
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variances Positive (Negative)	
	Original	Final	(GAAP) Basis	Original to Final	Final to Actual
Revenues:					
Sixteenth Section	$ 15,000	$ 30,052	$ 30,051	$ 15,052	$ (1)
Total Revenues	15,000	30,052	30,051	15,052	(1)
Expenditures:					
Sixteenth Section	-	-	-	-	-
Total Expenditures	-	-	-	-	-
Excess (Deficiency) of revenues over Expenditures	15,000	30,052	30,051	15,052	(1)
Other financing sources (uses):					
Operating transfers in	2,465	1,233	1,233	(1,232)	-
Operating transfers out	(26,000)	-	-	26,000	-
Other financing uses	-	-	-	-	-
Total Other Financing Sources (Uses)	(23,535)	1,233	1,233	24,768	-
Net Change in Fund Balances	(8,535)	31,285	31,284	39,820	(1)
Fund Balances:					
July 1, 2007	667,000	668,939	668,939	(1,939)	-
June 30, 2008	$ 658,465	$ 700,224	$ 700,223	$ 37,881	$ (1)

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

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

1. Basis of Presentation

The Budgetary Comparison Schedules 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 and the actual data.

2. Budget Amendments and Revisions

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

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SUPPLEMENTAL INFORMATION

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QUITMAN 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.S. Department of Agriculture		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	251,288
National school lunch program	10.555	702,006
Total child nutrition cluster		953,294
Total U.S. Department of Agriculture		953,294
Federal Communications Commissions		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.XXX	43,028
Total Federal Communications Commission		43,028
U.S. Deparment of Education		
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	966,028
Career and Technical Education - basic grants to states	84.048	35,145
Safe and drug-free schools and communitites - state grants	84.186	89,400
Education for homeless children and youth	84.196	11,213
Twenty-first century community learning centers	84.287	241,488
State grants for innovative programs	84.298	3,691
Education technology state grants	84.318	10,079
Rural education	84.358	63,416
Improving teacher quality state grants	84.367	193,638
Grants for state assessments and related activities	84.369	12,895
Hurricane education recovery	84.938	4,172
Total		1,631,165
Special education cluster:		
Special education - grants to states	84.027	483,102
Special education - preschool grants	84.173	48,836
Total special education cluster		531,938
Total passed-through Mississippi Department of Education		2,163,103
Total U.S. Department of Education		2,163,103
Total for All Federal Awards		$ 3,159,425

NOTES TO SCHEDULE

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

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

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	$ 14,566,107	$ 10,355,681	$ 660,838	1,137,890	$ 2,411,698
Other	7,555,510	1,742,136	189,844	19,446	5,604,084
Total	$ 22,121,617	$ 12,097,817	$ 850,682	$ 1,157,336	$ 8,015,782
Total number of students	2,087				
Cost per student	$ 10,600	$ 5,797	$ 408	$ 555	$ 3,840

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

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

General Administration – includes expenditures for the following functions: Support Services – General Administration (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

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

Salaries and fringe benefits – includes 100 and 200 range object codes

Other – includes all other expenditures

OTHER INFORMATION

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QUITMAN SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Last Four Years

		Unaudited		
	2008	2007	2006	2005
Revenues:				
Local sources	$ 3,594,036	$ 13,148,802	$ 3,266,404	$ 3,147,418
Intermediate sources	-	7,107	-	-
State sources	11,035,294	383,578	10,124,080	9,411,297
Federal sources	3,197,521	3,148,386	3,160,733	2,932,698
Sixteenth section sources	744,787	104,421	523,056	954,338
Total Revenues	18,571,638	16,792,294	17,074,273	16,445,751
Expenditures:				
Instruction	10,202,433	9,473,445	9,535,950	8,793,209
Support services	7,257,742	7,398,060	6,761,206	5,618,953
Noninstructional services	1,292,949	1,192,439	1,089,014	1,086,060
Sixteenth section	22,863	73,686	80,953	134,936
Facilities acquisition and construction	2,878,610	176,909	2,043	24,072
Debt service:				
Principal	305,924	10,924	80,924	124,749
Interest	161,096	4,098	12,305	17,876
Other	-	41,420	500	502
Total Expenditures	22,121,617	18,370,981	17,562,895	15,800,357
Excess (Deficiency) of Revenues over Expenditures	(3,549,979)	(1,578,687)	(488,622)	645,394
Other Financing Sources (Uses):				
Proceeds from three mill notes payable	-	3,800,000	-	-
Insurance proceeds	-	97,737	513,254	58,268
Operating transfers in	2,922,219	3,553,361	3,303,307	969,243
Other financing sources	-	168	950	-
Operating transfers out	(2,922,219)	(3,553,361)	(3,303,307)	(969,243)
Other financing uses	(1,313)	(5,248)	-	-
Total other financing sources (uses)	(1,313)	3,892,657	514,204	58,268
Net Change in Fund Balances	(3,551,292)	2,313,970	25,582	703,662
Fund Balances:				
July 1	9,423,043	7,109,073	7,083,491	6,379,829
June 30	$ 5,871,751	$ 9,423,043	$ 7,109,073	$ 7,083,491

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

		Unaudited		
	2008	2007	2006	2005
Revenues:				
Local sources	$ 2,946,807	$ 12,762,748	$ 2,908,090	$ 2,780,560
Intermediate sources	-	7,107	-	-
State sources	10,662,130	-	9,733,665	9,037,622
Federal sources	85,296	131,064	129,766	64,710
Total Revenues	13,694,233	12,900,919	12,771,521	11,882,892
Expenditures:				
Instruction	8,125,823	7,743,781	7,517,495	7,087,320
Support services	6,176,429	6,161,816	5,775,076	4,585,618
Facilities acquisition and construction	12,500	-	2,043	24,072
Debt service:				
Principal	10,924	10,924	10,924	10,924
Total Expenditures	14,325,676	13,916,521	13,305,538	11,707,934
Excess (Deficiency) of Revenues over Expenditures	(631,443)	(1,015,602)	(534,017)	174,958
Other Financing Sources (Uses):				
Insurance proceeds	-	97,737	513,254	58,268
Operating transfers in	1,896,185	2,478,866	2,172,047	285,123
Other financing sources	-	-	950	-
Operating transfers out	(2,404,233)	(2,390,164)	(2,314,554)	(531,508)
Other financing uses	(1,313)	(4,308)	-	-
Total other financing sources (uses)	(509,361)	182,131	371,697	(188,117)
Net Change in Fund Balances	(1,140,804)	(833,471)	(162,320)	(13,159)
Fund Balances:				
July 1	3,987,196	4,820,667	4,982,987	4,996,146
June 30	$ 2,846,392	$ 3,987,196	$ 4,820,667	$ 4,982,987

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

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

Superintendent and School Board
Quitman School District

I have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Quitman School District as of and for the year ended June 30, 2008, which collectively comprise the Quitman School District's basic financial statements and have issued my report thereon dated November 18, 2008. I conducted my 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 my audit, I considered the school district's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my 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, I do not express an opinion on the effectiveness of the school district's internal control over financial reporting.

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, I 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 my audit and, accordingly I do not express such an opinion. The results of my tests did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Stephen D. Myrick
Certified Public Accountant

November 18, 2008
Quitman, Mississippi

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Superintendent and School Board
Quitman School District

Compliance

I have audited the compliance of the Quitman 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 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. My responsibility is to express an opinion on the school district's compliance based on my audit.

I conducted my 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 I 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 I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the school district's compliance with those requirements.

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

Internal Control Over Compliance

The management of the Quitman 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 my audit, I 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 my auditing procedures for the purpose of expressing my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the school district's internal control over compliance.

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

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

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

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

Stephen D. Myrick
Certified Public Accountant

November 18, 2008
Quitman, Mississippi

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
Quitman School District

I have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Quitman School District as of and for the year ended June 30, 2008, which collectively comprise Quitman School District's basic financial statements and have issued my report thereon dated November 18, 2008. I conducted my 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, I 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 my audit and, accordingly, I do not express such an opinion.

The results of my 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 did not have any 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 my 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 State Auditor, I 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 my audit and, accordingly, I do not express such an opinion.

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

This report is intended solely for the information 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, is report is a matter of public record and its distribution is not limited.

Stephen D. Myrick
Certified Public Accountant

November 18, 2008
Quitman, Mississippi

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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Quitman School District
Schedule of Findings and Questioned Costs
June 30, 2008

Section 1: Summary of Auditor's Results

Financial Statements:

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

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?	None Reported
6. Any audit finding(s) reported as required by Section ___.510(a) of OMB Circular A-133?	No
7. Federal programs identified as major programs:	
a. Title I – grants to local educational agencies CFDA #: 84.010	
b. Special education cluster – grants to states and preschool grants. CFDA #: 84.027 & 84.173	
8. The dollar threshold used to distinguish between Type A and Type B programs:	$300,000
9. Auditee qualified as a low-risk auditee?	Yes
10. Prior fiscal year audit finding(s) 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

Quitman School District
Schedule of Findings and Questioned Costs
June 30, 2008

Section 2: Financial Statement Findings

The results of my tests did not disclose any findings related to the financial statements that are required to be reported by *Governmental Auditing Standards*.

Section 3: Federal Award Findings and Questioned Cost

The results of my tests did not disclose any findings and questioned costs related to the federal awards that are required to be reported.