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SOUTH PIKE SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2008

SOUTH PIKE SCHOOL DISTRICT
Table of Contents

INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
<u>Government-wide financial statements</u>	
Statement of Net Assets	10
Statement of Activities.....	11
<u>Governmental Fund Financial Statements</u>	
Balance Sheet.....	12
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets.....	13
Statement of Revenues, Expenditures and Changes in Fund Balances.....	14
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities.....	15
Statement of Fiduciary Assets and Liabilities.....	16
<u>Notes to Financial Statements</u>	17
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedules	36
Notes to the Required Supplementary Information.....	38
SUPPLEMENTAL INFORMATION	
Schedule of Expenditures of Federal Awards.....	39
Schedule of Instructional, Administrative and Other Expenditures – Governmental Funds.....	40
OTHER SUPPLEMENTAL INFORMATION	
Statement of Revenues, Expenditures and Changes in Fund Balances – General Fund – Last Four Years.....	41
Statement of Revenues, Expenditures and Changes in Fund Balances – All Governmental Funds – Last Four Years.....	42
REPORTS ON COMPLIANCE AND INTERNAL CONTROL	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards.....	43
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control over Compliance in Accordance with OMB Circular A- 133.....	45
Independent Auditor's Report On Compliance with State Laws and Regulations.....	47
Schedule of Findings and Questioned Costs.....	49
Corrective Action Plan.....	51
Summary Schedule of Prior Audit Findings.....	52

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

May 18, 2009

Superintendent and School Board
South Pike School District

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2009, on our consideration of the South Pike School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages (3) through (9) and the Budgetary Comparison Schedule and corresponding notes on pages (36) through (38) are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no

opinion on it.

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

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

McDaniel CPA Firm

MANAGEMENT'S DISCUSSION AND ANALYSIS

**SOUTH PIKE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

The discussion and analysis of South Pike 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 financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

FINANCIAL HIGHLIGHTS

- Total net assets increased \$ 440,532, which represents 4 % increase from fiscal year 2007.
- General revenues account for \$ 13,613,547 in revenue, or 72.0 % of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$ 5,344,686 or 28.0 % of total revenues.
- The District had \$ 18,512,070 in expenses; only \$ 5,344,686 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$ 13,613,547 were adequate to provide for these programs.
- Among major funds, the General Fund had \$ 12,671,206 in revenues and \$ 12,649,898 in expenditures. The General Fund's fund balance decreased \$ 271,222 over the prior year.
- Capital assets, net of accumulated depreciation, increased by \$ 199,559.
- Long-term debt decreased by \$ 324,166.

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.

**SOUTH PIKE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

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

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

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

The government-wide financial statements can be found on pages 10 - 11 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 13 and 15, respectively, of this report.

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,

**SOUTH PIKE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

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 12 – 15 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The school district's fiduciary activities are presented in a separate Statement of Fiduciary Assets and Liabilities on page 16.

Notes to the financial statements. The notes provide additional information that is essential to have 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 17 -35 of this report.

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund and each additional major special revenue fund. This required supplementary information can be found on pages 36 - 38 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and a schedule of instructional, administrative and other expenditures for governmental funds can be found on pages 39 and 40, respectively, of this report. Also, a statement of revenues, expenditures and changes in fund balances - last four years are presented for both the general fund and all governmental funds this information can be found on pages 41 and 42.

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 \$ 11,587,290 as of June 30, 2008.

Of the District's net assets (65%) 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.

**SOUTH PIKE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

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

	<u>Net Assets</u>		<u>Percentage Change</u>
	<u>June 30, 2008</u>	<u>June 30, 2007</u>	
Current Assets	4,937,553	5,357,054	-7.83%
Other Assets	454,532	206,086	120.55%
Capital Assets, Net	8,031,488	7,831,929	2.55%
Total Assets	<u>13,423,573</u>	<u>13,395,069</u>	<u>0.21%</u>
Current Liabilities	959,017	1,046,879	-8.39%
Long-term debt outstanding	877,266	1,201,432	-26.98%
Total Liabilities	<u>1,836,283</u>	<u>2,248,311</u>	<u>-18.33%</u>
 Net Assets:			
Invested in capital assets, net of related debt	7,119,109	6,701,469	6.23%
Restricted	2,250,904	2,102,030	7.08%
Unrestricted	2,217,277	2,343,259	-5.38%
Total Net Assets	<u>11,587,290</u>	<u>11,146,758</u>	<u>3.95%</u>

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

- Current assets decreased from the previous fiscal year due primarily to a decrease in cash and cash equivalents.
- Long-term debt outstanding decreased from the prior year due primarily to principal payments made during the year..

Changes in net assets. The District's total revenues for the fiscal year ended June 20, 2008 were \$ 18,958,233. The total cost of all programs and services was \$ 18,512,070. The following table presents a summary of the changes in net assets for the fiscal years ending June 30, 2008 and 2007 respectively.

**SOUTH PIKE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Change in Net Assets</u>		Percentage Change
	June 30, 2008	June 30, 2007	
Revenues:			
Program Revenues:			
Charges for Services	\$ 265,040	\$ 314,342	-15.68%
Operating grants and contributions	5,079,646	4,093,580	24.09%
General revenues:			
Property taxes	3,417,824	3,338,260	2.38%
Grants and contributions not restricted	9,726,003	9,735,029	-0.09%
Other	469,720	643,894	-27.05%
Total revenues	<u>18,958,233</u>	<u>18,125,105</u>	<u>4.60%</u>
Expenses:			
Instruction	10,313,490	9,420,627	9.48%
Support Services	6,878,539	8,180,390	-15.91%
Non-instructional	1,267,653	1,141,220	11.08%
Sixteenth Section	21,204	82,754	-74.38%
Interest and other expense on long-term liabilities	31,184	25,115	24.16%
Total expenses	<u>18,512,070</u>	<u>18,850,106</u>	<u>-1.79%</u>
Increase (Decrease) in net assets	<u>446,163</u>	<u>(725,001)</u>	<u>-161.54%</u>
Net Assets, July 1	<u>11,146,758</u>	<u>12,204,636</u>	<u>-8.67%</u>
Prior Period Adjustment	<u>(5,631)</u>	<u>(332,877)</u>	
Net Assets, July 1, restated	<u>11,141,127</u>	<u>11,871,759</u>	<u>-6.15%</u>
Net Assets, June 30	<u>\$ 11,587,290</u>	<u>\$ 11,146,758</u>	<u>3.95%</u>

Governmental activities. The following table presents the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section and interest and other expenses on long-term debt for fiscal years ending June 30, 2008 and 2007, respectively. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and District's taxpayers by each of these functions.

	<u>2008</u>		<u>2007</u>	
	<u>Total Expenses</u>	<u>Net(Expense) Revenue</u>	<u>Total Expenses</u>	<u>Net(Expense) Revenue</u>
Instruction	\$ 10,313,490	\$ (7,251,689)	\$ 9,420,627	\$ (7,306,343)
Support Services	6,878,539	(5,828,652)	8,180,390	(6,987,436)
Non-instructional	1,267,653	(34,655)	1,141,220	(41,303)
Sixteenth Section	21,204	(21,204)	82,754	(81,987)
Interest and other expenses on long-term liabilities	31,184	(31,184)	25,115	(25,115)
Total expenses	<u>\$ 18,512,070</u>	<u>\$ (13,167,384)</u>	<u>\$ 18,850,106</u>	<u>\$ (14,442,184)</u>

**SOUTH PIKE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

- Net cost of governmental activities (\$ 13,167,384) was financed by general revenue, which is made up of primarily property taxes \$ 3,417,824 and state revenue \$ 9,550,356.
- Investment earnings accounted for \$ 227,707 of funding.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$ 4,438,225, a decrease of \$ 89,794.

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was \$ 271,222 due to the transfer of funds to other governmental funds to be used for District operations. The fund balance of Other Governmental Funds showed an increase of \$ 39,221.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget. However, the budget revisions were routing in nature and were not considered significant when compared to the overall revenues and expenditures of the District.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2008, the District's total capital assets were \$ 14,068,532, including land, school buildings, busses, other school vehicles and furniture and equipment. This amount represents an net increase of \$ 679,260 from the previous year. Total accumulated depreciation as of June 30, 2008 was \$ 6,037,044 resulting in total net capital assets of \$ 8,031,488.

**SOUTH PIKE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Capital Assets, Net of Depreciation</u>		<u>Percentage Change</u>
	<u>2008</u>	<u>2007</u>	
Land	284,872	284,872	0%
Construction in progress	-	471,301	-100%
Buildings	5,300,724	4,514,261	17%
Building improvements	832,594	872,242	-5%
Improvements other than buildings	29,247	31,905	-8%
Mobile equipment	1,172,550	1,131,816	4%
Furniture and equipment	264,501	371,532	-29%
Leased property under capital leases	147,000	154,000	-5%
Total	<u>8,031,488</u>	<u>7,831,929</u>	3%

Debt Administration. At June 30, 2008, the District had \$ 877,266 in other long-term debt outstanding, of which \$ 249,945 is due within one year.

	<u>Outstanding Debt</u>		<u>Percentage Change</u>
	<u>2008</u>	<u>2007</u>	
General obligation bonds payable	-	125,000	-100%
Three mill notes payable	209,413	413,783	-49%
Obligations under capital leases	55,966	91,677	-39%
Qualified zone academy bonds payable	500,000	500,000	0%
Compensated absences payable	111,887	70,972	58%
Total	<u>877,266</u>	<u>1,201,432</u>	-27%

CURRENT ISSUES

The South Pike School District is financially stable. The District is proud of its community support of the public schools.

The District has committed itself to financial excellence for many years. The mills have not increased in any of the previous 5 years. In addition, the District system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the South Pike School District, P. O. Box 71, Magnolia, MS 39652.

BASIC FINANCIAL STATEMENTS

SOUTH PIKE SCHOOL DISTRICT
Statement of Net Assets
June 30, 2008

Exhibit A

	<u>Governmental</u> <u>Activities</u>
Assets:	
Cash and cash equivalents	\$ 4,351,288
Due from other governments	526,459
Inventories and prepaid items	59,806
Restricted assets	454,532
Capital assets, non-depreciable:	
Land	284,872
Capital assets, net of accumulated depreciation:	
Buildings	5,300,724
Building improvements	832,594
Improvements other than buildings	29,247
Mobile equipment	1,172,550
Furniture and equipment	264,501
Leased property under capital leases	147,000
Total Assets	<u><u>13,423,573</u></u>
Liabilities:	
Accounts payable and accrued liabilities	952,668
Unearned revenue	1,192
Interest payable on long-term liabilities	5,157
Long-term liabilities, due within one year:	
Capital related liabilities	246,396
Non-capital related liabilities	3,549
Long-term liabilities, due beyond one year:	
Capital related liabilities	518,983
Non-capital related liabilities	108,338
Total Liabilities	<u><u>1,836,283</u></u>
Net Assets:	
Investments in capital assets, net of related debt	7,266,109
Restricted net assets:	
Expendable:	
School-based activities	627,369
Debt service	457,761
Capital improvements	308,917
Forestry improvements	88,777
Unemployment benefits	46,362
Non-expendable:	
Sixteenth section	721,718
Unrestricted	2,070,277
Total Net Assets	<u><u>11,587,290</u></u>

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

SOUTH PIKE SCHOOL DISTRICT
 Balance Sheet - Governmental Funds
 6/30/2008

Exhibit C

	Major Funds				Total Governmental Funds
	General Fund	School Food Service Fund	16th Section Principal Fund	Other Governmental Funds	
ASSETS					
Cash and cash equivalents	\$ 2,591,411	350,435	340,510	1,409,442	\$ 4,691,798
Cash with fiscal agents	-	-	-	1,326	1,326
Investments	-	-	-	112,696	112,696
Due from other governments	185,321	-	-	341,138	526,459
Due from other funds	456,139	18,631	-	10,632	485,402
Advance to other funds	-	-	405,000	-	405,000
Inventories and prepaid items	20,958	38,848	-	-	59,806
Total Assets	3,253,829	407,914	745,510	1,875,234	6,282,487
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	670,708	14,873	-	267,087	952,668
Due to other funds	35,112	300,000	-	150,290	485,402
Advances from other funds	405,000	-	-	-	405,000
Unearned revenue	-	-	-	1,192	1,192
Total Liabilities	1,110,820	314,873	-	418,569	1,844,262
Fund Balances:					
Reserved for:					
Advances	-	-	405,000	-	405,000
Inventory	-	38,848	-	-	38,848
Prepaid items	20,958	-	-	-	20,958
Unemployment benefits	-	-	-	46,362	46,362
Forestry improvement purposes	-	-	-	88,777	88,777
Capital project purposes	-	-	-	308,917	308,917
Debt service purposes	-	-	-	462,918	462,918
Permanent fund purposes	-	-	311,308	5,410	316,718
Unreserved:					
Undesignated, reported in:					
General Fund	2,122,051	-	-	-	2,122,051
Special Revenue Funds	-	54,193	-	534,328	588,521
Capital projects funds	-	-	-	9,953	9,953
Permanent funds	-	-	29,202	-	29,202
Total Fund Balances	2,143,009	93,041	745,510	1,456,665	4,438,225
Total Liabilities and Fund Balances	\$ 3,253,829	407,914	745,510	1,875,234	\$ 6,282,487

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

Exhibit C-1

	<u>Amount</u>
Total fund balance - governmental funds	\$ 4,438,225
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$ 6,037,044.	8,031,488
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(877,266)
3. Governmental funds recognize interest on long-term debt when it becomes due, however the Statement of Net Assets recognizes interest as it accrues.	(5,157)
Total net assets - governmental activities	<u>\$ 11,587,290</u>

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

Exhibit D

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	School Food Service Fund	16th Section Principal Fund		
Revenues:					
Local sources	\$ 3,117,427	136,490	-	685,429	\$ 3,939,346
State sources	9,329,889	5,885	-	1,024,731	10,360,505
Federal sources	223,890	989,598	-	3,231,656	4,445,144
Sixteenth section sources	-	-	163,400	49,838	213,238
Total Revenues	12,671,206	1,131,973	163,400	4,991,654	18,958,233
Expenditures:					
Instruction	7,162,589	-	-	3,053,097	10,215,686
Support services	5,430,529	76,384	-	1,208,287	6,713,200
Noninstructional services	145	1,081,820	-	149,561	1,231,526
Sixteenth section	-	-	-	21,204	21,204
Facilities acquisition and construction	-	-	-	462,952	462,952
Debt service:					
Principal	35,711	-	-	329,370	365,081
Interest	20,924	-	-	15,554	36,478
Other	-	-	-	1,307	1,307
Total Expenditures	12,649,898	1,158,204	-	5,239,332	19,047,434
Excess (deficiency) of revenues over expenditures	21,308	(26,231)	163,400	(247,678)	(89,201)
Other Financing Sources (Uses):					
Operating transfers in	420,979	-	-	713,509	1,134,488
Payments held by escrow agents	-	-	-	35,650	35,650
Operating transfers out	(713,509)	-	-	(420,979)	(1,134,488)
Payment to QZAB debt escrow agent	-	-	-	(35,650)	(35,650)
Total Other Financing Sources (Uses)	(292,530)	-	-	292,530	-
Net change in fund balances	(271,222)	(26,231)	163,400	44,852	(89,201)
Fund Balances:					
July 1, 2007	2,414,231	114,234	582,110	1,417,444	4,528,019
Prior period adjustments	-	-	-	(5,831)	(5,831)
July 1, 2007, as restated	2,414,231	114,234	582,110	1,411,613	4,522,388
Increase(Decrease) in reserve for inventory	-	5,038	-	-	5,038
June 30, 2008	\$ 2,143,009	83,041	745,510	1,456,665	\$ 4,438,225

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

Exhibit D-1

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ (89,201)
Amounts reported for governmental activities in the Statement of Activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchase amounted to \$ 767,424 and the depreciation expense amounted to \$ 559,049.	208,375
2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Activities.	365,081
3. Governmental funds recognize interest on long-term debt when it becomes due, however, the Statement of Activities recognizes interest as it accrues regardless of when it becomes due.	6,601
4. Gains and losses on the sale or disposals of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds.	(8,816)
5. Increase (decrease) in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are (decreased) increased in the Statements of Activities.	5,038
6. Expenses in the Statement of Activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds.	
Compensated absences	(40,915)
Change in Net Assets of Governmental Activities	<u>\$ 446,163</u>

SOUTH PIKE SCHOOL DISTRICT
Statement of Fiduciary Assets and Liabilities
June 30, 2008

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 268,330
Total Assets	<u><u>268,330</u></u>
Liabilities	
Accounts payable and accrued liabilities	239,607
Due to student clubs	28,723
Total Liabilities	<u><u>\$ 268,330</u></u>

NOTES TO FINANCIAL STATEMENTS

SOUTH PIKE SCHOOL DISTRICT

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

(1) Summary of Significant Accounting Policies.

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

A. Financial Reporting Entity.

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the school district's governing board. As defined by accounting principles generally accepted in the United States of America, the school district is considered a "primary government." The school district is governed by a five member board to which each member was elected by the citizens of each defined county district.

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

B. Basis of Presentation.

Government-wide Financial Statements:

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

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

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

SOUTH PIKE SCHOOL DISTRICT

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

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.

School Food Service Fund – This fund accounts for the revenue collected from students for the sale of breakfasts, lunches and milk and the federal revenue received under the National School Lunch and Breakfast programs. The fund also accounts for expenditures incurred for the purchase and preparation of food and other costs incurred to administer the programs.

16th Section Principal Fund – This fund accounts for the nonexpendable revenues derived from the use of sixteenth section lands held in trust by the school district and from the investment of sixteenth section funds. The fund also accounts for certain expenditures concerned with maintaining and improving sixteenth section lands.

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

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

The District's fiduciary funds include the following:

Payroll Clearing Fund – This fund serves as a clearing fund for payroll type transactions.

Accounts Payable Clearing Fund – This fund serves as a clearing fund for accounts payable type transactions.

SOUTH PIKE SCHOOL DISTRICT

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

Student Club Funds – These various funds account for the monies raised through school club activities and fund raisers and club related expenditures approved by the individual clubs.

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

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

FIDUCIARY FUNDS

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

C. Measurement Focus and Basis of Accounting.

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

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

SOUTH PIKE SCHOOL DISTRICT

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

accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and judgments, are recorded only when payment is due.

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

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

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

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

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

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

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

D. Account Classifications.

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

E. Encumbrances.

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

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

SOUTH PIKE SCHOOL DISTRICT

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

1. Cash, Cash equivalents and Investments

Cash and cash equivalents.

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

Investments.

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

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

Investments for the district are reported at fair market value.

2. Receivables and payables

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

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

3. Due from Other Governments

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

4. Inventories and Prepaid Items.

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

SOUTH PIKE SCHOOL DISTRICT

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

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

5. Restricted Assets

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

6. Capital Assets.

Capital assets, which include property, plant, furniture and equipment, are reported in the governmental activities column in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost or estimated historical cost based on appraisals or deflated current replacement cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the thresholds in the following table and estimated useful lives in excess of two years.

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

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

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

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

7. Compensated Absences.

SOUTH PIKE SCHOOL DISTRICT

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

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

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

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

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

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

9. Fund equity.

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

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

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

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

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

SOUTH PIKE SCHOOL DISTRICT

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

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

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

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

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

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

Reserved for permanent fund purposes - An account that represents a portion of the fund balance that is legally restricted for investment purposes or borrowing by the school board for capital purposes.

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

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

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

Deposits. The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the school district's deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

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

SOUTH PIKE SCHOOL DISTRICT

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

Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, the principal and interest of which are fully guaranteed by the government or enumerated agency of the United States; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or interest in, and open-end or closed-end any management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration. Investment income on bond funds (Capital Project Funds), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent Funds) must be credited to those funds. Investment income of \$ 100 or more of any fund must be credited to that fund. Amounts less than \$ 100 can be credited to the General Fund.

Cash and Cash Equivalents.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$ 4,691,798, and \$ 268,330, respectively. The bank balance was \$ 5,265,947.

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 the 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 \$ 5,265,947 was exposed to custodial credit risk.

Cash With Fiscal Agents.

The carrying amount of school districts' cash with fiscal agents held by financial institutions was \$ 1,326.

Investments.

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

<u>Investment Type</u>	<u>Maturities (in years)</u>	<u>Fair Value</u>	<u>Rating</u>
U.S. Agency Obligations	Less than 1	\$ 112,696	AAA
Total Investments		<u>\$ 112,696</u>	

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

SOUTH PIKE SCHOOL DISTRICT

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

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

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

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

Issuer	Fair Value	% of Total Investments
Federal National Mortgage Association	\$ 112,696	100%
	\$ 112,696	

(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
Governmental Funds:		
General fund	\$ 456,139	35,112
School food service fund	\$ 18,631	300,000
Other governmental funds	10,632	150,290
Total Funds	\$ 485,402	485,402

SOUTH PIKE SCHOOL DISTRICT

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

The purpose of interfund loans was to account for federal funds that were not received until after the year ending 6/30/2008.

B. Advances To / From Other Funds:

	Advances To	Advances From
Governmental Funds:		
General fund	\$ -	405,000
16th section principal fund	405,000	-
Total Funds	\$ 405,000	405,000

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

Sixteenth section principal loans payable.

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

Year Ending June 30	Principal	Interest	Total
2009	45,000	16,200	61,200
2010	45,000	14,400	59,400
2011	45,000	12,600	57,600
2012	45,000	10,800	55,800
2013	45,000	9,000	54,000
2014-2017	180,000	18,000	198,000
Total	\$ 405,000	\$ 81,000	\$ 486,000

SOUTH PIKE SCHOOL DISTRICT

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

C. Transfers In / Out:

	Transfers In	Transfers Out
Governmental Funds:		
General fund	\$ 420,979	713,509
Other governmental funds	713,509	420,979
Total Funds	\$ 1,134,488	1,134,488

The purpose of transfers in and transfers out were related to debt service payments and standard operations.

(4) Restricted Assets

The restricted assets represent the cash balance totaling \$ 340,510 of the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs. In addition, the restricted assets also represent the cash with fiscal agent and investment balance, totaling \$ 1,326 and \$ 112,696, respectively, of the QZAB Debt Retirement Fund.

(5) Capital Assets.

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

SOUTH PIKE SCHOOL DISTRICT

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

	Balance 7/1/2007	Additions	Retirements	Completed Construction	Adjustments	Balance 6/30/2008
<u>Non-depreciable capital</u>						
Land	\$ 284,872					\$ 284,872
Construction in progress	471,301	462,952		(934,253)		-
Total non-depreciable	756,173	462,952	-	(934,253)	-	284,872
<u>Depreciable capital assets</u>						
Buildings	7,357,430			934,253		8,291,683
Building improvements	991,184					991,184
Improvements other than buildings	66,470					66,470
Mobile equipment	2,127,961	229,295	88,164			2,269,092
Furniture and equipment	1,915,054	75,177				1,990,231
Leased property under capital leases	175,000					175,000
Total depreciable capital	12,633,099	304,472	88,164	934,253	-	13,783,660
<u>Less accumulated:</u>						
Buildings	2,843,169	147,790				2,990,959
Building improvements	118,942	39,648				158,590
Improvements other than buildings	34,565	2,658				37,223
Mobile equipment	996,145	179,745	79,348			1,096,542
Furniture and equipment	1,543,522	182,208				1,725,730
Leased property under capital leases	21,000	7,000				28,000
Total accumulated depreciation	5,557,343	559,049	79,348	-	-	6,037,044
Total depreciable capital assets, net	7,075,756	(254,577)	8,816	934,253	-	7,746,616
Governmental activities capital assets, net	\$ 7,831,929	208,375	8,816	-	-	\$ 8,031,488

Depreciation expense was charged to the following governmental functions:

SOUTH PIKE SCHOOL DISTRICT

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

	<u>Amount</u>
Instruction	\$ 122,010
Support Services	392,032
Non-instructional	45,007
Total depreciation expense	<u>\$ 559,049</u>

(6) Long-term liabilities.

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

	Balance 7/1/2007	Additions	Reductions	Balance 6/30/2008	Amounts due within one year
A. General obligation bonds payable	125,000		(125,000)	-	-
B. Three mill - ten year notes payable	413,783		(204,370)	209,413	209,413
C. Obligations under capital leases	91,677		(35,711)	55,966	36,983
D. Qualified zone academy bonds payable	500,000			500,000	-
E. Compensated absences payable	70,972	40,915		111,887	3,549
Total	<u>\$ 1,201,432</u>	<u>40,915</u>	<u>(365,081)</u>	<u>877,266</u>	<u>249,945</u>

A. General obligation bonds payable.

General obligation bonds are direct obligations and pledge the full faith and credit of the school district. General obligation bonds were fully retired during the fiscal year

B. Three mill notes payable.

Debt currently outstanding is as follows:

SOUTH PIKE SCHOOL DISTRICT

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Three mill note	2.48%	9/19/2003	8/15/2008	1,000,000	209,413
Total				<u>\$ 1,000,000</u>	<u>\$ 209,413</u>

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	209,413	5,197	214,610
Total	<u>\$ 209,413</u>	<u>\$ 5,197</u>	<u>\$ 214,610</u>

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

C. Obligations under capital leases.

The school district has entered into a lease agreement that qualifies as a capital lease for accounting purposes. Leased property under this lease is composed of lighting upgrades at the school facilities.

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest and Maintenance Charges</u>	<u>Total</u>
2009	36,983	1,652	38,635
2010	18,983	335	19,318
Total	<u>\$ 55,966</u>	<u>\$ 1,987</u>	<u>\$ 57,953</u>

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

This debt will be retired from the District Maintenance Fund.

SOUTH PIKE SCHOOL DISTRICT

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

D. Qualified zone academy bonds payable.

As more fully explained in Note 11, debt has been issued by the school district that qualifies as Qualified Zone Academy bonds. Debt currently outstanding is as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Qualified zone academy bonds	0.00%	1/15/2005	10/13/2014	500,000	500,000
Total				<u>\$ 500,000</u>	<u>\$ 500,000</u>

E. Compensated absences payable.

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

(7) Defined Benefit Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25 % of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The current rate is 11.85% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2008, 2007, and 2006 were \$ 1,278,353, \$ 1,100,756 and \$ 993,121, respectively, which equaled the required contributions for each year.

(8) Sixteenth Section Lands.

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

SOUTH PIKE SCHOOL DISTRICT

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

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

Year Ending June 30	Amount
2009	30,043
2010	25,149
2011	23,873
2012	10,125
2013	1,215
2014-2018	2,711
2019-2023	1,861
2024-2028	1,290
2029-2033	925
Thereafter	1,280
Total	\$ 98,472

(9) Prior Period Adjustments/Exhibits.

A summary of significant fund equity adjustments is as follows:

Exhibit B – Statement of Activities

Explanation:	Amount
1. To record expenditures related to the prior fiscal year and correct beginning fund balance at the governmental fund level	(5,631)
Total	\$ (5,631)

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

Major Funds:	Explanations	Amount
Other governmental funds	To record expenditures related to the prior fiscal year and correct beginning fund balance	(5,631)
Total		\$ (5,631)

SOUTH PIKE SCHOOL DISTRICT

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

(10) Risk Management.

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

Participation in Public Entity Risk Pool.

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

(11) Qualified Zone Academy Bonds.

Section 226 of the Taxpayer Relief Act of 1997 (Public Law 105-34) provides for a source of capital at no or nominal interest rates for costs incurred by certain public schools in connection with the establishment of special academic programs from kindergarten through secondary school, in partnership with the business community. The school district, in agreement with Trustmark National Bank and Hancock Bank, has entered into such an arrangement dated January 15, 2005.

This agreement establishes a method of repayment for a qualified interest-free debt instrument. The agreement requires the school district to deposit funds annually into a sinking fund account on or before October 16. The amount accumulated in the sinking fund at the end of the ten-year period will be sufficient to retire the debt. The amount transferred to the sinking fund during the year was \$ \$ 35,650. The following schedule reports the yearly deposits to be made to the sinking fund by the school district.

SOUTH PIKE SCHOOL DISTRICT

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

<u>Year Ending June 30</u>	<u>Amount</u>
2009	\$ 175,000
2010	74,475
Total	<u>\$ 249,475</u>

REQUIRED SUPPLEMENTARY INFORMATION

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

Schedule 1

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	3,295,240	3,117,427	3,117,427	(177,813)	-
State sources	9,311,537	9,334,858	9,329,889	23,321	(4,969)
Federal sources	137,638	223,890	223,890	86,252	-
Total Revenues	12,744,415	12,676,175	12,671,206	(68,240)	(4,969)
Expenditures:					
Instruction	7,441,842	7,162,589	7,162,589	279,253	-
Support services	5,368,038	5,430,529	5,430,529	(62,491)	-
Noninstructional services	-	145	145	(145)	-
Debt service:					
Principal	35,711	35,711	35,711	-	-
Interest	20,924	20,924	20,924	-	-
Total Expenditures	12,866,515	12,649,898	12,649,898	216,617	-
Excess (deficiency) of revenues over expenditures	(122,100)	26,277	21,308	148,377	(4,969)
Other Financing Sources:					
Operating transfers in	369,697	420,979	420,979	51,282	-
Operating transfers out	(146,197)	(718,478)	(713,509)	(572,281)	4,969
Total Other Financing Sources (Uses)	223,500	(297,499)	(292,530)	(520,999)	4,969
Net change in fund balances	101,400	(271,222)	(271,222)	(372,622)	-
Fund Balances:					
July 1, 2007	2,414,231	2,414,231	2,414,231	-	-
June 30, 2008	2,515,631	2,143,009	2,143,009	(372,622)	-

SOUTH PIKE SCHOOL DISTRICT
 Budgetary Comparison Schedule
 School Food Service Fund
 For the Year Ended June 30, 2008

Schedule 2

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	114,005	136,490	136,490	22,485	-
State sources	6,500	5,885	5,885	(815)	-
Federal sources	990,000	989,598	989,598	(402)	-
Total Revenues	1,110,505	1,131,973	1,131,973	21,468	-
Expenditures:					
Support services	87,944	76,384	76,384	11,560	-
Noninstructional services	1,047,748	1,081,820	1,081,820	(34,072)	-
Total Expenditures	1,135,692	1,158,204	1,158,204	(22,512)	-
Excess (deficiency) of revenues over expenditures	(25,187)	(26,231)	(26,231)	(1,044)	-
Other Financing Sources:					
Total Other Financing Sources (Uses)	-	-	-	-	-
Net change in fund balances	(25,187)	(26,231)	(26,231)	(1,044)	-
Fund Balances:					
July 1, 2007	114,234	114,234	114,234	-	-
Increase (decrease) in reserve for inventory			5,038		5,038
June 30, 2008	89,047	88,003	93,041	(1,044)	5,038

SOUTH PIKE SCHOOL DISTRICT

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

Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(2) Budget Amendments and Revisions.

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

SUPPLEMENTAL INFORMATION

SOUTH PIKE SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

<u>Federal Grantor / Pass-through Grantor / Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>		
Passed - through Mississippi Department of Education:		
Child Nutrition Cluster:		
School breakfast program	10.553	261,628
National school lunch program	10.555	727,970
Summer food service program for children	10.559	836
Total child nutrition cluster		<u>990,434</u>
Cooperative forestry assistance	10.664	20,238
Total U.S. Department of Agriculture		<u>1,010,672</u>
<u>U.S. Department of Defense</u>		
Direct program:		
Reserve Officers' Training Corps	12.XXX	51,177
		<u>51,177</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.XXX	80,502
Total Federal Communications Commission		<u>80,502</u>
<u>U.S. Department of Education</u>		
Direct program:		
Gaining early awareness and readiness for undergraduate programs	84.334	16,018
Total		<u>16,018</u>
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	1,338,091
Career and technical education - basic grants to states	84.048	36,445
Safe and drug-free schools and communities - state grants	84.186	17,625
Twenty-first century community learning centers	84.287	513,373
Education technology state grants	84.318	137,911
Comprehensive school reform demonstration	84.332	42,629
Reading first state grants	84.357	156,946
Rural education	84.358	68,115
Improving teacher quality - state grants	84.387	289,124
Total		<u>2,600,259</u>
Special education cluster:		
Special education - grants to states	84.027	572,456
Special education - preschool grants	84.173	67,312
Total special education cluster		<u>639,768</u>
Total passed-through Mississippi Department of Education		<u>3,260,027</u>
Total U.S. Department of Education		<u>3,276,045</u>
<u>U.S. Department of Health and Human Services</u>		
Passed-through Mississippi Department of Health and Human Services:		
Medical assistance program	93.778	50,197
Total		<u>50,197</u>
Total U.S. Department of Health and Human Services		<u>50,197</u>
Total for All Federal Awards		<u>\$ 4,468,593</u>

NOTES TO SCHEDULE

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

South Pike 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	\$ 14,034,339	10,369,088	665,646	933,172	2,066,433
Other	5,013,095	1,486,048	151,468	29,186	3,346,393
Total	19,047,434	11,855,136	817,114	962,358	5,412,826
Total number of students *	1,953				
Cost per student	9,753	6,070	418	493	2,772

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

Instruction and Other Student Instructional Expenditures -

includes the activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teachers aides or classroom assistants of any type. (all the 1000, 2100, & 2200 functional codes)

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

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

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

* include the number of students reported on the ADA report submission for month 9, which is the final submission for the fiscal year include 100 and 200 range object codes on the "Salaries and fringe benefits" line; all other expenditures on the "Other" line

OTHER SUPPLEMENTAL INFORMATION

SOUTH PIKE SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

"UNAUDITED"

General Fund

Last Four Years

	2008	2007*	2006*	2005*
Revenues:				
Local sources	\$ 3,117,427	3,199,000	2,755,538	3,364,192
State sources	9,329,889	8,873,311	8,464,208	8,220,731
Federal sources	223,890	694,988	101,036	111,342
Total Revenues	<u>12,671,206</u>	<u>12,767,299</u>	<u>11,320,782</u>	<u>11,696,265</u>
Expenditures:				
Instruction	7,162,589	7,172,797	6,408,749	6,215,981
Support services	5,430,529	5,917,334	4,714,321	5,325,471
Noninstructional services	145	56		
Facilities acquisition and construction		512,885		
Debt service:				
Principal	35,711	34,483	33,298	41,042
Interest	20,924	4,152	5,146	4,345
Total Expenditures	<u>12,649,898</u>	<u>13,641,507</u>	<u>11,161,514</u>	<u>11,586,839</u>
Excess (Deficiency) of Revenues over Expenditures	<u>21,308</u>	<u>(874,208)</u>	<u>159,268</u>	<u>109,426</u>
Other Financing Sources (Uses):				
Insurance loss recoveries			76,787	
Sale of transportation equipment		1,427		
Sale of other property		31,033		
Operating transfers in	420,979	562,145	560,860	523,179
Other financing sources				
Operating transfers out	(713,509)	(1,184,230)	(251,464)	(245,065)
Payment to refunded bond escrow agent				
Other financing uses			(32,979)	
Total Other Financing Sources (Uses)	<u>(292,530)</u>	<u>(489,625)</u>	<u>353,204</u>	<u>278,114</u>
Net Change in Fund Balances	<u>(271,222)</u>	<u>(1,363,833)</u>	<u>512,472</u>	<u>387,540</u>
Fund Balances:				
Fund balance, July 1	2,414,231	3,778,064	3,265,592	2,873,039
Prior period adjustments				5,013
Fund balance, July 1, as restated	<u>2,414,231</u>	<u>3,778,064</u>	<u>3,265,592</u>	<u>2,878,052</u>
Fund balance, June 30	\$ <u>2,143,009</u>	<u>2,414,231</u>	<u>3,778,064</u>	<u>3,265,592</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

SOUTH PIKE SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

"UNAUDITED"

All Governmental Funds

Last Four Years

	2006	2007*	2006*	2005*
Revenues:				
Local sources	\$ 3,939,346	4,057,677	3,506,844	4,339,928
State sources	10,360,505	9,514,331	9,154,396	8,821,383
Federal sources	4,445,144	4,314,278	4,243,108	3,302,848
Sixteenth section sources	213,238	189,050	813,845	210,689
Total Revenues	18,958,233	18,075,336	17,718,193	16,674,848
Expenditures:				
Instruction	10,215,666	9,296,692	9,129,359	8,066,867
Support services	6,713,200	8,399,167	6,276,847	6,813,959
Noninstructional services	1,231,526	1,130,362	1,040,136	1,096,504
Sixteenth section	21,204	82,754	57,984	26,376
Facilities acquisition and construction	462,952	983,986	98,845	636,314
Debt service:				
Principal	365,081	348,917	337,915	338,208
Interest	36,476	29,529	33,239	53,325
Other	1,307	1,935	440	16,628
Total Expenditures	19,047,434	20,273,342	16,974,765	17,048,181
Excess (Deficiency) of Revenues over Expenditures	(89,201)	(2,198,006)	743,428	(373,333)
Other Financing Sources (Uses):				
Proceeds of loans				500,000
Inception of capital leases				175,000
Insurance loss recoveries		22,506	76,787	
Sale of transportation equipment		1,427		
Sale of other property		31,033		
Operating transfers in	1,134,488	2,570,217	797,908	648,051
Payments held by escrow agents	35,650	35,650		
Operating transfers out	(1,134,488)	(2,570,217)	(797,908)	(648,051)
Payment for qualified zone academy bonds	(35,650)	(35,650)		
Other financing uses			(32,979)	
Total Other Financing Sources (Uses)	-	54,966	43,808	675,000
Net Change in Fund Balances	(89,201)	(2,143,040)	787,236	301,667
Fund Balances:				
Fund balance, July 1	4,528,019	6,651,790	5,880,960	5,583,987
Prior period adjustments	(5,631)		-	-
Fund balance, July 1, as restated	4,522,388	6,651,790	5,880,960	5,583,987
Increase (Decrease) in reserve for inventory	5,038	19,269	(18,406)	(4,694)
Fund balance, June 30	\$ 4,438,225	4,528,019	6,651,790	5,880,960

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

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

May 18, 2009

Superintendent and School Board
South Pike School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the South Pike School District as of and for the year ended June 30, 2008, which collectively comprise the South Pike School District's basic financial statements and have issued our report thereon dated May 18, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2008-1 to be a significant deficiency in internal control over financial reporting.

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

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

Compliance and Other Matters

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

South Pike School District's response to the finding identified in our audit is described in the accompanying Auditee's Corrective Action Plan. We did not audit South Pike School District's response and, accordingly, we express no opinion on it.

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

McDaniel CPA Firm

McDaniel CPA Firm
Certified Public Accountant / Financial Consultant

Scotty McDaniel, CPA

MEMBER

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

May 18, 2009

Superintendent and School Board
South Pike School District

Compliance

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

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

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

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

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

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

McDaniel CPA Firm

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Certified Public Accountant / Financial Consultant

Scotty McDaniel, CPA

MEMBER

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

May 18, 2009

Superintendent and School Board
South Pike School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the South Pike School District as of and for the year ended June 30, 2008, which collectively comprise South Pike School District's basic financial statements and have issued our report thereon dated May 18, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instance of noncompliance. The district reported \$ 47,009 of classroom supply funds carried over from previous years.

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

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

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

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

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

McDaniel CPA Firm

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

Section 1: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

- | | | |
|-----|---|---------------|
| 4. | Type of auditor's report issued on compliance for major federal programs: | unqualified |
| 5. | Internal Control over major programs: | |
| | a. Material weakness(es) identified? | no |
| | b. Significant deficiency (ies) identified that are not considered to be material weaknesses? | none reported |
| 6. | Any audit finding(s) reported as required by section ____ .510(a) of Circular A-133? | no |
| 7. | Federal programs identified as major programs: | |
| | a. Special Education Cluster | |
| | CFDA#: 84.027 | |
| | CFDA#: 84.173 | |
| | b. 21st Century Learning Grant | |
| | CFDA#: 84.287 | |
| | c. Title I grants to local educational agencies | |
| | CFDA#: 84.010 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$ 300,000 |
| 9. | Auditee qualified as a low-risk auditee? | no |
| 10. | Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in section ____ .315(b) of OMB Circular A-133? | no |

Section 2: Financial Statement Findings

Significant Deficiency Not Considered to be Material Weakness.

2008-1. Finding

During the review of certain revenue accounts we found on one instance that ad valorem taxes received was not recorded in the correct general ledger account.

Recommendation

We recommend that the district review each transaction recorded on the books and records to ensure that transactions are recorded in the correct general ledger account.

Section 3: Federal Award Findings and Questioned Costs

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

Auditee's Corrective Action Plan

Financial Compliance & Audit Division

As required by Section ____315(c) of OMB Circular A-133, the South Pike School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2008.

<u>Finding</u>	<u>Corrective Action Plan Details</u>
2008-1	<p>a. Name of Contact Persons Responsible for Corrective Action: Kathy Albritton, Chief Financial Officer</p> <p>b. Corrective Action Planned: The district will implement procedures to ensure that transactions are recorded in the correct account on the general ledger.</p> <p>c. Anticipated Completion Date: This is an on going process.</p>

AUDITEE'S SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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

<u>Finding</u>	<u>Status</u>
2007-1	Corrective action taken.