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**SOUTH PANOLA SCHOOL DISTRICT**

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

**Charles L. Shivers, CPA  
Ridgeland, MS**

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FINANCIAL AUDIT REPORT

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# CHARLES L. SHIVERS

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## INDEPENDENT AUDITOR'S REPORT

Superintendent and School Board  
South Panola School District

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

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

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

In accordance with *Government Auditing Standards*, I have also issued my report dated May 28, 2009, on my consideration of the South Panola School District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

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

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the South Panola 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 my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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



Ridgeland, MS  
May 28, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

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# South Panola School District

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*Providing Opportunities for Educational Excellence*

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*Keith Shaffer, Ed. D., Superintendent*

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## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2008

The discussion and analysis of South Panola 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 \$376,716 (including the prior period adjustment), which represents a 2.5% increase from fiscal year 2007.
- General revenues account for \$30,679,992 in revenue, or 80.5% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$7,432,513 or 19.5% of total revenues.
- The District had \$37,480,202 in expenses; only \$7,432,513 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$30,679,992 were adequate to provide for these programs.
- Among major funds, the General Fund had \$29,570,173 in revenues and \$28,147,081 in expenditures. The General Fund's fund balance increased \$627,217 over the prior year.
- Capital assets, net of accumulated depreciation, decreased by \$383,457.
- Long-term debt increased by \$272,669.

### OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

**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.

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

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

**Notes to the financial statements.** The notes provide additional information that is essential to have a full understanding of the data provided in the government-wide and fund financial statements.

**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.

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, as required by the Mississippi State Auditor, can be found in this report. Also, this report includes a Statement of Revenues, Expenditures and Changes in Fund Balance, General Fund, Last Four Years and a Statement of Revenues, Expenditures and Changes in Fund Balance, All Governmental Funds, Last Four Years as required by the Mississippi Department of Education.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net assets.** Net assets may serve over time as a useful indicator of a government's financial position. In the case of the

District, assets exceeded liabilities by \$15,400,084 as of June 30, 2008.

By far the largest portion of the District's net assets (63.4%) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment and leased property under capital leases), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

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

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

|  | Net Assets           |                   | Percentage |
|--|----------------------|-------------------|------------|
|  | June 30, 2008        | June 30, 2007     | Change     |
| Current assets                                     | \$ 8,202,520         | \$ 8,298,077      | -1.2 %     |
| Restricted assets                                  | 1,221,578            | 0                 |            |
| Non-depreciable assets                             | 723,090              | 1,065,780         | -32.2 %    |
| Depreciable assets, net                            | <u>20,207,616</u>    | <u>20,248,383</u> | -0.2 %     |
| <b>Total assets</b>                                | <u>30,354,804</u>    | <u>29,612,240</u> | 2.5 %      |
| Current liabilities                                | 916,598              | 823,419           | 11.3 %     |
| Long-term debt outstanding                         | <u>14,038,122</u>    | <u>13,765,453</u> | 2.0 %      |
| <b>Total liabilities</b>                           | <u>14,954,720</u>    | <u>14,588,872</u> | 2.5 %      |
| <b>Net assets:</b>                                 |                      |                   |            |
| Invested in capital assets,<br>net of related debt | 9,796,399            | 8,023,675         | 22.1 %     |
| Restricted   | 1,475,988            | 2,197,486         | -32.8 %    |
| Unrestricted                                       | <u>4,127,697</u>     | <u>4,802,207</u>  | -14.0 %    |
| <b>Total net assets</b>                            | <u>\$ 15,400,084</u> | <u>15,023,368</u> | 2.5 %      |

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

- The principal retirement of \$1,165,615 of long-term debt.
- The increase in long-term debt of \$1,500,000.
- The addition of \$720,978 in capital assets.

**Changes in net assets.** The District's total revenues for the fiscal year ended June 30, 2008 were \$38,112,505. The total cost of all programs and services was \$37,480,202. The following table presents a summary of the changes in net assets for the fiscal years ending June 30, 2008 and 2007, respectively.

|   | Change in Net Assets |                   | Percentage |
|---|----------------------|-------------------|------------|
|   | June 30, 2008        | June 30, 2007     | Change     |
| <b>Revenues:</b>                        |                      |                   |            |
| Program revenues:                       |                      |                   |            |
| Charges for services                    | \$ 836,764           | \$ 831,423        | 0.6 %      |
| Operating grants and contributions      | 6,595,749            | 6,865,145         | -3.9 %     |
| General revenues:                       |                      |                   |            |
| Property taxes                          | 7,266,652            | 7,967,222         | -8.8 %     |
| Grants and contributions not restricted | 22,958,677           | 20,868,476        | 10.0 %     |
| Other                                   | <u>454,663</u>       | <u>464,178</u>    | -2.1 %     |
| <b>Total revenues</b>                   | <u>38,112,505</u>    | <u>36,966,444</u> | 3.0 %      |
| <b>Expenses:</b>                        |                      |                   |            |
| Instruction                             | 21,903,896           | 21,123,105        | 3.7 %      |
| Support services                        | 12,614,716           | 11,110,963        | 13.5 %     |
| Non-instructional                       | 2,230,875            | 2,133,836         | 4.5 %      |

|  |                      |                      |          |
|--|----------------------|----------------------|----------|
| Sixteenth section                                      | 1,458                | 0                    |          |
| Interest and other expense<br>on long-term liabilities | <u>729,257</u>       | <u>542,939</u>       | 34.3 %   |
| <b>Total expenses</b>                                  | <u>37,480,202</u>    | <u>34,910,843</u>    | 7.4 %    |
| <b>Special Items</b>                                   | <u>87,103</u>        | <u>80,103</u>        | 8.7 %    |
| <b>Increase (Decrease) in net assets</b>               | 719,406              | 2,165,704            | -66.8 %  |
| <b>Net Assets, July 1</b>                              | <u>15,023,368</u>    | <u>12,915,574</u>    | 16.3 %   |
| <b>Prior Period Adjustment</b>                         | <u>(342,690)</u>     | <u>(57,910)</u>      | -491.8 % |
| <b>Net Assets, June 30</b>                             | <u>\$ 15,400,084</u> | <u>\$ 15,023,368</u> | 2.5 %    |

**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.

|   | 2008                 |                         | 2007                 |                         |
|---|----------------------|-------------------------|----------------------|-------------------------|
|   | Total<br>Expenses    | Net(Expense)<br>Revenue | Total<br>Expenses    | Net(Expense)<br>Revenue |
| Instruction   | \$ 21,903,896        | \$(18,443,589)          | \$ 21,123,105        | \$(17,134,746)          |
| Support services  | 12,614,716           | (10,854,510)            | 11,110,963           | (9,839,668)             |
| Non-instructional                                       | 2,230,875            | (18,875)                | 2,133,836            | 303,078                 |
| Sixteenth section                                       | 1,458                | (1,458)                 | 0                    | 0                       |
| Interest and other expenses<br>on long-term liabilities | <u>729,257</u>       | <u>(729,257)</u>        | <u>542,939</u>       | <u>(542,939)</u>        |
| <b>Total expenses</b>                                   | <u>\$ 37,480,202</u> | <u>\$ (30,047,689)</u>  | <u>\$ 34,910,843</u> | <u>\$(27,214,275)</u>   |

- Net cost of governmental activities (\$30,047,689), was financed by general revenue, which is made up of primarily property taxes (\$7,266,652) and state revenue (\$21,075,817).
- Investment earnings accounted for \$291,147 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 \$9,424,070, an increase of \$1,158,549, exclusive of the decrease in inventory. \$4,810,200 or 51.0% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$4,613,870 or 49.0% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$627,217. The fund balance of Other Governmental Funds showed a decrease of \$302,377.

## BUDGETARY HIGHLIGHTS

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

- Budget amounts for revenue from state sources was increased to full funding for Mississippi Adequate Education. The original budgeted amounts underestimated for potential cuts by the Mississippi legislature. This was done upon suggestion of the Mississippi Department of Education.

A schedule showing the original and final budget amounts compared to the District's actual financial activity for the General Fund and other 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 \$30,289,432, including land, school buildings, building improvements, improvements other than buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$235,546 from the previous year. Total accumulated depreciation as of June 30, 2008 was \$9,358,726 and total depreciation expense for the year was \$746,829, resulting in total net assets of \$20,930,706.

|                                   | <u>Capital Assets, Net of Depreciation</u> |                      | Percentage    |
|-----------------------------------|--|----------------------|---------------|
|                                   | <u>2008</u>                                | <u>2007</u>          | <u>Change</u> |
| Land                              | \$ 723,090                                 | \$ 1,065,780         | -32.2 %       |
| Buildings                         | 18,036,877                                 | 18,420,860           | -2.1 %        |
| Building improvements             | 347,440                                    | 355,520              | -2.3 %        |
| Improvements other than buildings | 143,445                                    | 149,818              | -4.3 %        |
| Mobile equipment                  | 1,600,043                                  | 1,239,378            | 29.1 %        |
| Furniture and equipment           | 79,811                                     | 82,807               | -3.6 %        |
| <b>Total</b>                      | <b>\$ 20,930,706</b>                       | <b>\$ 21,314,163</b> | <b>-1.8 %</b> |

**Debt Administration.** At June 30, 2008, the District had \$14,038,122 in general obligation bonds and other long-term debt outstanding, of which \$1,117,977 is due within one year.

|  | <u>Outstanding Debt</u> |                     | Percentage    |
|--|-------------------------|---------------------|---------------|
|  | <u>2008</u>             | <u>2007</u>         | <u>Change</u> |
| General obligation bonds payable           | \$ 5,640,000            | \$ 6,040,000        | -6.6 %        |
| Three mill notes payable                   | 1,425,000               | 0                   | 100.0 %       |
| Shortfall notes payable                    | 66,124                  | 199,530             | -66.9 %       |
| Obligations under capital leases           | 0                       | 19,692              | -100.0 %      |
| Obligations under energy efficiency leases | 104,307                 | 201,824             | -48.3 %       |
| Qualified zone academy bonds               | 1,198,972               | 1,198,972           | 0.0 %         |
| Limited obligation bonds payable           | 5,390,000               | 5,830,000           | -7.5 %        |
| Compensated absences payable               | 213,719                 | 275,435             | -22.4 %       |
| <b>Total</b>                               | <b>\$14,038,122</b>     | <b>\$13,765,453</b> | <b>2.0 %</b>  |

The District maintains a AAA bond rating with Standard and Poors.

## CURRENT ISSUES

The South Panola 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 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 Panola School District, 209 Boothe Street, Batesville, MS 38606.

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BASIC FINANCIAL STATEMENTS

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South Panola School District  
Statement of Net Assets  
June 30, 2008

Exhibit A

|  | <u>Governmental<br/>Activities</u> |
|--|------------------------------------|
| <b>Assets</b>  |                                    |
| Cash and cash equivalents (Note 2)                   | \$ 4,943,425                       |
| Investments (Note 2)                                 | \$ 2,126,864                       |
| Due from other governments                           | \$ 1,094,575                       |
| Inventories and prepaid items                        | \$ 37,656                          |
| Restricted assets (Note 4)                           | \$ 1,221,578                       |
| Non-depreciable capital assets (Note 5)              | \$ 723,090                         |
| Depreciable capital assets, net (Note 5)             | \$ 20,207,616                      |
| <b>Total Assets</b>                                  | <u>\$ 30,354,804</u>               |
| <b>Liabilities</b>                                   |                                    |
| Accounts payable and accrued liabilities             | \$ 28                              |
| Deferred credit on bonds payable (Note 12)           | \$ 480,616                         |
| Interest payable on long-term liabilities            | \$ 435,954                         |
| Long-term liabilities (Due within one year) (Note 6) |                                    |
| Capital related liabilities                          | \$ 974,307                         |
| Non-capital related liabilities                      | \$ 143,670                         |
| Long-term liabilities (Due beyond one year) (Note 6) |                                    |
| Capital related liabilities                          | \$ 10,160,000                      |
| Non-capital related liabilities                      | \$ 2,760,145                       |
| <b>Total Liabilities</b>                             | <u>\$ 14,954,720</u>               |
| <b>Net assets</b>                                    |                                    |
| Investment in capital assets (net of related debt)   | \$ 9,796,399                       |
| Restricted net assets                                |                                    |
| Expendable   |                                    |
| School-based activities                              | \$ 721,019                         |
| Debt service   | \$ 602,623                         |
| Forestry improvements                                | \$ 28,731                          |
| Unemployment benefits                                | \$ 90,000                          |
| Non-expendable                                       |                                    |
| Sixteenth section                                    | \$ 33,615                          |
| Unrestricted   | <u>\$ 4,127,697</u>                |
| <b>Total Net Assets</b>                              | <u>\$ 15,400,084</u>               |

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

South Panola School District  
Statement of Activities  
For the Year Ended June 30, 2008

Exhibit B

| Functions / Programs                                    | Expenses             | Program Revenues        |  | Net (Expense) Revenue<br>and Changes in Net<br>Assets |
|---|----------------------|-------------------------|--|---|
|   |                      | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Governmental<br>Activities                            |
| <b>Governmental Activities</b>                          |                      |                         |  |   |
| Instruction   | \$ 21,903,896        | \$ 49,331               | \$ 3,410,976                             | \$ (18,443,589)                                       |
| Support services  | \$ 12,614,716        | \$ 456,454              | \$ 1,303,752                             | \$ (10,854,510)                                       |
| Non-instructional                                       | \$ 2,230,875         | \$ 330,979              | \$ 1,881,021                             | \$ (18,875)   |
| Sixteenth section                                       | \$ 1,458             |                         |  | \$ (1,458)  |
| Interest and other expenses on<br>long-term liabilities | \$ 729,257           |                         |  | \$ (729,257)  |
| <b>Total Governmental Activities</b>                    | <b>\$ 37,480,202</b> | <b>\$ 836,764</b>       | <b>\$ 6,595,749</b>                      | <b>\$ (30,047,689)</b>                                |
| <b>General Revenues</b>                                 |                      |                         |  |   |
| Taxes   |                      |                         |  |   |
| General purpose levies                                  |                      |                         |  | \$ 6,053,333  |
| Debt purpose levies                                     |                      |                         |  | \$ 1,213,319  |
| Unrestricted grants and contributions                   |                      |                         |  |   |
| Local   |                      |                         |  | \$ 1,564,448  |
| State   |                      |                         |  | \$ 21,075,817   |
| Federal   |                      |                         |  | \$ 318,412  |
| Unrestricted investment earnings                        |                      |                         |  | \$ 291,147  |
| Sixteenth section sources                               |                      |                         |  | \$ 29,440   |
| Other   |                      |                         |  | \$ 134,076  |
| <b>Total General Revenues</b>                           |                      |                         |  | <b>\$ 30,679,992</b>                                  |
| Special items (Note 13)                                 |                      |                         |  | \$ 87,103   |
| <b>Total General Revenues and Special Items</b>         |                      |                         |  | <b>\$ 30,767,095</b>                                  |
| Changes in Net Assets                                   |                      |                         |  | \$ 719,406  |
| Net Assets - Beginning                                  |                      |                         |  | \$ 15,023,368   |
| Prior Period Adjustments (Note 9)                       |                      |                         |  | \$ (342,690)  |
| Net Assets - Beginning - Restated                       |                      |                         |  | \$ 14,680,678   |
| Net Assets - Ending                                     |                      |                         |  | \$ 15,400,084   |

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

South Panola School District  
 Balance Sheet - Governmental Funds  
 June 30, 2008

Exhibit C

|  | Major Funds         |                   |                              |                             |                            | Total<br>Governmental<br>Funds |
|--|---------------------|-------------------|------------------------------|-----------------------------|----------------------------|--------------------------------|
|  | General<br>Fund     | Title I<br>Fund   | EHA 94-142<br>Part B<br>Fund | Capital<br>Projects<br>Fund | QZAB<br>Debt<br>Retirement |                                |
| <b>Assets</b>                              |                     |                   |                              |                             |                            |                                |
| Cash and cash equivalents (Note 2)         | \$ 3,397,598        |                   |                              | \$ 777,811                  | \$ 220,715                 | \$ 5,359,691                   |
| Cash with fiscal agent (Note 2)            |                     |                   |                              |                             | \$ 2,515                   | \$ 2,515                       |
| Investments (Note 2)                       | \$ 393,949          | \$ 128,447        | \$ 108,891                   | \$ 2,126,864                | \$ 753,959                 | \$ 2,929,661                   |
| Due from other governments                 |                     |                   |                              |                             | \$ 6,439                   | \$ 1,094,575                   |
| Due from other funds (Note 3)              | \$ 335,290          |                   |                              |                             |                            | \$ 335,290                     |
| Inventories                                |                     |                   |                              |                             |                            | \$ 37,656                      |
| <b>Total Assets</b>                        | <b>\$ 4,126,837</b> | <b>\$ 128,447</b> | <b>\$ 108,891</b>            | <b>\$ 2,904,675</b>         | <b>\$ 983,628</b>          | <b>\$ 9,759,388</b>            |
| <b>Liabilities and Fund Balances</b>       |                     |                   |                              |                             |                            |                                |
| <b>Liabilities</b>                         |                     |                   |                              |                             |                            |                                |
| Accounts payable & accrued liabilities     |                     |                   |                              |                             |                            | \$ 28                          |
| Due to other funds (Note 3)                |                     | \$ 128,447        | \$ 108,891                   |                             |                            | \$ 97,952                      |
| <b>Total Liabilities</b>                   | <b>\$ -</b>         | <b>\$ 128,447</b> | <b>\$ 108,891</b>            | <b>\$ -</b>                 | <b>\$ -</b>                | <b>\$ 335,318</b>              |
| <b>Fund Balances</b>                       |                     |                   |                              |                             |                            |                                |
| Reserved for                               |                     |                   |                              |                             |                            |                                |
| Debt service purposes                      |                     |                   |                              |                             | \$ 983,628                 | \$ 1,519,193                   |
| Permanent fund purposes                    |                     |                   |                              |                             |                            | \$ 33,615                      |
| Unemployment benefits                      |                     |                   |                              |                             |                            | \$ 90,000                      |
| Forestry improvements                      |                     |                   |                              |                             |                            | \$ 28,731                      |
| Inventory                                  |                     |                   |                              |                             |                            | \$ 37,656                      |
| Unreserved                                 |                     |                   |                              |                             |                            |                                |
| Designated, reported in Capital Projects   |                     |                   |                              | \$ 2,904,675                |                            | \$ 2,904,675                   |
| Undesignated, reported in                  |                     |                   |                              |                             |                            |                                |
| General fund                               | \$ 4,126,837        |                   |                              |                             |                            | \$ 4,126,837                   |
| Special revenue funds                      |                     |                   |                              |                             |                            | \$ 679,701                     |
| Capital projects funds                     |                     |                   |                              |                             |                            | \$ 3,662                       |
| <b>Total Fund Balances</b>                 | <b>\$ 4,126,837</b> | <b>\$ -</b>       | <b>\$ -</b>                  | <b>\$ 2,904,675</b>         | <b>\$ 983,628</b>          | <b>\$ 9,424,070</b>            |
| <b>Total Liabilities and Fund Balances</b> | <b>\$ 4,126,837</b> | <b>\$ 128,447</b> | <b>\$ 108,891</b>            | <b>\$ 2,904,675</b>         | <b>\$ 983,628</b>          | <b>\$ 9,759,388</b>            |

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

South Panola 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  | \$ 9,424,070                |
| Amounts reported for governmental activities in the statement of net assets are different because:   |                             |
| Capital assets are used in governmental activities and are not financial resources, therefore the assets are not reported in the governmental funds, net of accumulated depreciation of \$9,358,726. | \$ 20,930,706               |
| Deferred credit on bonds payable are reported as long-term deferred charges in the statement of net assets, but were not reported in the governmental funds.   | \$ (480,616)                |
| Long-term liabilities are not due and payable in the current period, therefore the long-term liabilities are not reported in the governmental funds.   | \$ (14,038,122)             |
| Accrued interest payable on long-term liabilities is not due and payable in the current period, therefore it is not reported in the governmental funds.  | <u>\$ (435,954)</u>         |
| Total net assets - governmental activities   | <u><u>\$ 15,400,084</u></u> |

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

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South Panola School District  
 Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds  
 For the Year Ended June 30, 2008

|  | Major Funds          |                     |                              |                             |                            |                                | Total<br>Governmental<br>Funds |
|--|----------------------|---------------------|------------------------------|-----------------------------|----------------------------|--------------------------------|--------------------------------|
|  | General<br>Fund      | Title I<br>Fund     | EHA 94-142<br>Part B<br>Fund | Capital<br>Projects<br>Fund | QZAB<br>Debt<br>Retirement | Other<br>Governmental<br>Funds |                                |
| <b>Revenues</b>  |                      |                     |                              |                             |                            |                                |                                |
| Local sources  | \$ 8,308,149         |                     |                              | \$ 154,180                  | \$ 268,605                 | \$ 1,356,402                   | \$ 10,087,336                  |
| Intermediate sources   |                      |                     |                              |                             |                            | \$ 2,689                       | \$ 2,689                       |
| State sources  | \$ 20,926,074        |                     |                              |                             |                            | \$ 1,408,064                   | \$ 22,334,138                  |
| Federal sources  | \$ 335,950           | \$ 1,257,374        | \$ 955,603                   |                             |                            | \$ 3,106,914                   | \$ 5,655,841                   |
| Sixteenth section sources                                    |                      |                     |                              |                             |                            | \$ 29,440                      | \$ 29,440                      |
| <b>Total Revenues</b>  | <b>\$ 29,570,173</b> | <b>\$ 1,257,374</b> | <b>\$ 955,603</b>            | <b>\$ 154,180</b>           | <b>\$ 268,605</b>          | <b>\$ 5,903,509</b>            | <b>\$ 38,109,444</b>           |
| <b>Expenditures</b>  |                      |                     |                              |                             |                            |                                |                                |
| Instruction  | \$ 17,507,205        | \$ 875,800          | \$ 665,952                   |                             |                            | \$ 2,364,048                   | \$ 21,413,005                  |
| Support services   | \$ 10,508,812        | \$ 356,332          | \$ 289,651                   | \$ 91,059                   |                            | \$ 1,933,523                   | \$ 13,179,377                  |
| Noninstructional services                                    |                      | \$ 15,242           |                              |                             |                            | \$ 2,132,181                   | \$ 2,147,423                   |
| Sixteenth section  |                      |                     |                              |                             |                            | \$ 1,458                       | \$ 1,458                       |
| Debt service   |                      |                     |                              |                             |                            |                                |                                |
| Principal (Note 6)   | \$ 117,209           |                     |                              |                             |                            | \$ 1,048,406                   | \$ 1,165,615                   |
| Interest   | \$ 8,950             |                     |                              |                             |                            | \$ 524,389                     | \$ 533,339                     |
| Other  | \$ 4,905             |                     |                              |                             | \$ 1,300                   | \$ 7,534                       | \$ 13,739                      |
| <b>Total Expenditures</b>                                    | <b>\$ 28,147,081</b> | <b>\$ 1,247,374</b> | <b>\$ 955,603</b>            | <b>\$ 91,059</b>            | <b>\$ 1,300</b>            | <b>\$ 8,011,539</b>            | <b>\$ 38,453,956</b>           |
| <b>Excess (Deficiency) of Revenues<br/>Over Expenditures</b> | <b>\$ 1,423,092</b>  | <b>\$ 10,000</b>    | <b>\$ -</b>                  | <b>\$ 63,121</b>            | <b>\$ 267,305</b>          | <b>\$ (2,108,030)</b>          | <b>\$ (344,512)</b>            |
| <b>Other Financing Sources (Uses)</b>                        |                      |                     |                              |                             |                            |                                |                                |
| Proceeds of loans (Note 6)                                   | \$ 3,061             |                     |                              |                             |                            | \$ 1,500,000                   | \$ 1,500,000                   |
| Sale of transportation equipment                             | \$ 678,006           |                     |                              | \$ 503,283                  |                            | \$ 976,942                     | \$ 3,061                       |
| Operating transfers in (Note 3)                              | \$ (1,476,942)       | \$ (10,000)         |                              |                             |                            | \$ (671,289)                   | \$ 2,158,231                   |
| Operating transfers out (Note 3)                             |                      |                     |                              |                             |                            |                                | \$ (2,158,231)                 |
| <b>Total Other Financing Sources (Uses)</b>                  | <b>\$ (795,875)</b>  | <b>\$ (10,000)</b>  | <b>\$ -</b>                  | <b>\$ 503,283</b>           | <b>\$ -</b>                | <b>\$ 1,805,653</b>            | <b>\$ 1,503,061</b>            |
| <b>Net Change in Fund Balances</b>                           | <b>\$ 627,217</b>    | <b>\$ -</b>         | <b>\$ -</b>                  | <b>\$ 566,404</b>           | <b>\$ 267,305</b>          | <b>\$ (302,377)</b>            | <b>\$ 1,158,549</b>            |

|                                   |                     |             |             |                     |                   |                     |                     |  |  |
|-----------------------------------|---------------------|-------------|-------------|---------------------|-------------------|---------------------|---------------------|--|--|
| Fund Balances                     |                     |             |             |                     |                   |                     |                     |  |  |
| July 1, 2007                      | \$ 3,499,620        | \$ -        | \$ -        | \$ 2,338,271        | \$ 716,323        | \$ 1,734,938        | \$ 8,289,152        |  |  |
| Decrease in reserve for inventory |                     |             |             |                     |                   | <u>\$ (23,631)</u>  | <u>\$ (23,631)</u>  |  |  |
| June 30, 2008                     | <u>\$ 4,126,837</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,904,675</u> | <u>\$ 983,628</u> | <u>\$ 1,408,930</u> | <u>\$ 9,424,070</u> |  |  |

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

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

Exhibit D-1

|  | <u>Amount</u>            |
|--|--------------------------|
| Net change in fund balance - governmental funds  | \$ 1,158,549             |
| Amounts reported for governmental activities in the statement of activities are different because:   |                          |
| Governmental funds report capital assets as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchased amounted to \$713,978, donated equipment amounted to \$7,000 and the depreciation expense amounted to \$746,829. | \$ (25,851)              |
| Payment on the principal on long-term liabilities is reported as expenditures in the governmental funds, but the payment reduces long-term liabilities in the statement of activities.   | \$ 1,165,615             |
| Amortization of deferred credit on bonds payable is reported as a special item in the statement of activities, but is not reported in the governmental funds.  | \$ 80,103                |
| Increases associated with changes in the compensated absences liability is reported in the statement of activities, but is not reported in the governmental funds.   | \$ 61,716                |
| Proceeds of long-term liabilities are reported in the governmental funds, but not in the statement of activities.  | \$ (1,500,000)           |
| The sale and/or disposal of capital assets is reported as other financing sources in the governmental funds, but is reported as a reduction of capital assets, net of accumulated depreciation, along with the loss on the sale/disposal of capital assets on the statement of activities.                       | \$ (14,916)              |
| Accrued interest payable is reported in the statement of activities, but is not reported in the governmental funds.  | \$ (182,179)             |
| The governmental funds reported a decrease in reserve for inventory while the transaction is not reported in the statement of activities.  | <u>\$ (23,631)</u>       |
| Changes in net assets of governmental activities   | <u><u>\$ 719,406</u></u> |

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

South Panola School District  
Statement of Fiduciary Assets and Liabilities  
June 30, 2008

Exhibit E

|  | <u>Agency<br/>Funds</u> |
|--|-------------------------|
| <b>Assets</b>                            |                         |
| Cash and cash equivalents (Note 2)       | \$ 1,562,610            |
| Investments (Note 2)                     | <u>\$ 62,373</u>        |
| Total Assets                             | <u>\$ 1,624,983</u>     |
| <b>Liabilities</b>                       |                         |
| Accounts payable and accrued liabilities | \$ 1,482,509            |
| Due to student clubs                     | <u>\$ 142,474</u>       |
| Total Liabilities                        | <u>\$ 1,624,983</u>     |

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

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South Panola School District  
Notes to Financial Statements  
For the Year Ended June 30, 2008

(1) Summary of Significant Accounting Policies.

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

A. Financial Reporting Entity.

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

For financial reporting purposes, the 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 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

South Panola School District  
Notes to Financial Statements  
For the Year Ended June 30, 2008

funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The school district reports the following major governmental funds:

**General Fund** – This is the school district’s primary operating fund. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support, and other costs.

**Title I Fund** – This is a special revenue fund that is used to account for Federal funds whose use is limited to services for educationally deprived children.

**EHA 94-142 Part B Fund** – This is a special revenue fund that is used to account for Federal funds whose use is limited to special education services.

**Capital Projects Fund** – This capital projects fund is financed with local funds and the school board has designated its use for construction, repairs and renovations of school buildings and related facilities.

**QZAB Debt Retirement** – This debt service fund is use to account for the retirement of the Qualified Zone Academy Bonds debt.

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 is used as a clearing account for payroll and payroll related transactions.

**Accounts Payable Clearing** – This fund is used as a clearing account for non-payroll transactions.

**Student Club Accounts** – These funds are used to account for the transaction of student clubs.

Additionally, the school district reports the following fund types:

#### GOVERNMENTAL FUND TYPES

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

**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

South Panola School District  
Notes to Financial Statements  
For the Year Ended June 30, 2008

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 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.

South Panola School District  
Notes to Financial Statements  
For the Year Ended June 30, 2008

E. Encumbrances.

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

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

1. Cash, 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.

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

South Panola School District  
Notes to Financial Statements  
For the Year Ended June 30, 2008

5. Restricted Assets.

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

6. Capital Assets.

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

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

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

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

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

7. Compensated Absences.

Employees of the school district accumulate sick leave at a minimum amount as required by state law. 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.

South Panola School District  
Notes to Financial Statements  
For the Year Ended June 30, 2008

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

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

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

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 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 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.

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 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.

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

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

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

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

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

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

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

Cash and Cash Equivalents.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$7,582,542 (which includes \$2,222,851 of certificates of deposit with original maturities beyond three months and reported on Exhibit C as investments) and \$1,562,610, respectively. The bank balance was \$11,470,914.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district.

Cash with Fiscal Agents.

The carrying amount of the school district's cash with fiscal agents held by financial institutions was \$2,515.

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> |
|------------------------------------|------------------------------|---------------------|---------------|
| Money Market Account               | N/A                          | \$ 15,224           | AAAm          |
| Certificates of deposit            | Less than 1 year             | \$ 2,222,851        | N/A           |
| US Government Obligations/Agencies | Varies                       | \$ 753,959          | N/A           |
| Total Investments                  |                              | <u>\$ 2,992,034</u> |               |

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

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

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**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:

| Investment Type                    | Fair Value          | % of Total Investments |
|------------------------------------|---------------------|------------------------|
| Money Market Account               | \$ 15,224           | .5%                    |
| Certificates of deposit            | \$ 2,222,851        | 74.3%                  |
| US Government Obligations/Agencies | \$ 753,959          | 25.2%                  |
| Total                              | <u>\$ 2,992,034</u> | 100.0%                 |

(3) Interfund Receivables, Payables and Transfers.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds.

| Receivable Fund | Payable Fund             | Amount            |
|-----------------|--------------------------|-------------------|
| General Fund    | Major fund – Title I     | \$ 128,447        |
|                 | Major fund – EHA Part B  | \$ 108,891        |
|                 | Other governmental funds | \$ 97,952         |
| Total           |                          | <u>\$ 335,290</u> |

The purpose of the more significant interfund loans was to eliminate deficit cash balances in certain federal programs as part of the normal year end closing adjustments.

B. Interfund Transfers.

| Transfer Out              | Transfer In                   | Amount              |
|---------------------------|-------------------------------|---------------------|
| General Fund              | Major fund – Capital Projects | \$ 500,000          |
|                           | Other governmental funds      | \$ 976,942          |
| Major fund – Title I Fund | General Fund                  | \$ 10,000           |
| Other governmental funds  | General Fund                  | \$ 668,006          |
|                           | Major fund – Capital Projects | \$ 3,283            |
| Total                     |                               | <u>\$ 2,158,231</u> |

The transfer out of the General Fund was for the purpose of funding the capital projects in the Capital Projects Fund and the vocational program in the Other Governmental Funds. The transfer out of the Title I Fund was for indirect cost transferred to the General Fund. The transfer out of the Other Governmental Funds was for indirect cost transferred to the General Fund and to replace funds in the General Fund from a prior year transfer which eliminated a deficit in the Other Governmental Funds in the prior year.

(4) Restricted Assets.

The restricted assets represent the cash balance totaling \$416,266 of various funds which is legally restricted and may not be used for purposes that support the district's programs. The account also includes the investment balance totaling \$33,614 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 include the cash and investment balance, totaling \$2,515, and \$753,959, respectively, of the QZAB Bond Retirement Fund. Also, the

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restricted assets include the investment balance totaling \$15,224 of the MAEP Limited Obligation Bond Retirement Fund.

(5) Capital Assets.

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

|  | <u>Balance<br/>7-1-2007</u> | <u>Additions</u> | <u>Retirements</u> | <u>Adjustments</u> | <u>Balance<br/>6-30-2008</u> |
|--|-----------------------------|------------------|--------------------|--------------------|------------------------------|
| <b>Governmental Activities:</b>                  |                             |                  |                    |                    |                              |
| <b><u>Non-depreciable capital assets:</u></b>    |                             |                  |                    |                    |                              |
| Land   | \$ 1,065,780                |                  |                    | \$ (342,690)       | \$ 723,090                   |
| Total non-depreciable capital assets             | \$ 1,065,780                | \$ 0             | \$ 0               | \$ (342,690)       | \$ 723,090                   |
| <b><u>Depreciable capital assets:</u></b>        |                             |                  |                    |                    |                              |
| Buildings  | \$24,535,074                | \$ 75,000        |                    |                    | \$24,610,074                 |
| Building improvements                            | \$ 404,000                  |                  |                    |                    | \$ 404,000                   |
| Improvements other than buildings                | \$ 239,268                  |                  |                    |                    | \$ 239,268                   |
| Mobile equipment                                 | \$ 2,697,380                | \$ 621,248       | \$ (123,370)       | \$ (5,215)         | \$ 3,190,043                 |
| Furniture and equipment                          | \$ 1,112,384                | \$ 24,730        | \$ (19,372)        | \$ 5,215           | \$ 1,122,957                 |
| Total depreciable capital assets                 | \$28,988,106                | \$ 720,978       | \$ (142,742)       | \$ 0               | \$29,566,342                 |
| <b><u>Less accumulated depreciation for:</u></b> |                             |                  |                    |                    |                              |
| Buildings  | \$ 6,114,214                | \$ 458,983       |                    |                    | \$ 6,573,197                 |
| Building improvements                            | \$ 48,480                   | \$ 8,080         |                    |                    | \$ 56,560                    |
| Improvements other than buildings                | \$ 89,450                   | \$ 6,373         |                    |                    | \$ 95,823                    |
| Mobile equipment                                 | \$ 1,458,002                | \$ 241,316       | \$ (108,648)       | \$ (670)           | \$ 1,590,000                 |
| Furniture and equipment                          | \$ 1,029,577                | \$ 32,077        | \$ (19,178)        | \$ 670             | \$ 1,043,146                 |
| Total depreciation                               | \$ 8,739,723                | \$ 746,829       | \$ (127,826)       | \$ 0               | \$ 9,358,726                 |
| Total depreciable capital assets, net            | \$20,248,383                | \$ (25,851)      | \$ (14,916)        | \$ 0               | \$20,207,616                 |
| Governmental activities capital assets, net      | \$21,314,163                | \$ (25,851)      | \$ (14,916)        | \$ (342,690)       | \$20,930,706                 |

The adjustment to land is the result of land acquired in a prior year being recorded twice in that prior year.

Depreciation expense was charged to the following governmental functions:

| <u>Governmental activities:</u> | <u>Amount</u> |
|---------------------------------|---------------|
| Instruction                     | \$ 490,891    |
| Support services                | \$ 196,117    |
| Non-instructional               | \$ 59,821     |
| Total Depreciation Expense      | \$ 746,829    |

(6) Long-term Liabilities.

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

|                                     | <u>Balance<br/>7-1-2007</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance<br/>6-30-2008</u> | <u>Amounts<br/>due<br/>within one<br/>year</u> |
|-------------------------------------|-----------------------------|------------------|-------------------|------------------------------|--|
| A. General obligation bonds payable | \$ 6,040,000                |                  | \$ 400,000        | \$ 5,640,000                 | \$ 415,000                                     |
| B. Limited obligation bonds payable | \$ 5,830,000                |                  | \$ 440,000        | \$ 5,390,000                 | \$ 455,000                                     |
| C. Three mill notes payable         | \$ 0                        | \$ 1,500,000     | \$ 75,000         | \$ 1,425,000                 | \$ 100,000                                     |
| D. Shortfall notes payable          | \$ 199,530                  |                  | \$ 133,406        | \$ 66,124                    | \$ 32,984                                      |
| E. Obligations under capital leases | \$ 19,692                   |                  | \$ 19,692         | \$ 0                         |  |

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|  | Balance<br>7-1-2007  | Additions           | Reductions          | Balance<br>6-30-2008 | Amounts<br>due<br>within one<br>year |
|--|----------------------|---------------------|---------------------|----------------------|--------------------------------------|
| F. Obligations under energy efficiency lease | \$ 201,824           |                     | \$ 97,517           | \$ 104,307           | \$ 104,307                           |
| G. Qualified zone academy bonds payable      | \$ 1,198,972         |                     | \$                  | \$ 1,198,972         | \$ 0                                 |
| H. Compensated absences payable              | \$ 275,435           |                     | \$ 61,716           | \$ 213,719           | \$ 10,686                            |
| Total  | <u>\$ 13,765,453</u> | <u>\$ 1,500,000</u> | <u>\$ 1,227,331</u> | <u>\$ 14,038,122</u> | <u>\$ 1,117,977</u>                  |

The district has pledged state appropriations for Mississippi Adequate Education Program in the amount of \$664,814. The purpose of the pledge is to repay limited obligation bonds of the district. The pledge will remain in effect through 2018. The amount of the pledge is the total amounts of funds available to the district for this particular purpose. During the year, the pledged revenues represent 100% of the principal and interest requirements for the debt.

A. General obligation bonds payable.

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

| Description                                     | Interest<br>Rate(s) | Issue<br>Date | Maturity<br>Date | Amount<br>Issued | Amount<br>Outstanding |
|---|---------------------|---------------|------------------|------------------|-----------------------|
| General obligation refunding bonds, series 2005 | 4.0                 | 12-15-05      | 3-1-18           | \$ 5,460,000     | \$ 5,640,000          |

Details of the district's June 30, 2008 general obligation bonded indebtedness are as follows:

| Year Ending<br>June 30 | Principal           | Interest            | Total               |
|------------------------|---------------------|---------------------|---------------------|
| 2009                   | \$ 415,000          | \$ 225,600          | \$ 640,600          |
| 2010                   | \$ 490,000          | \$ 209,000          | \$ 699,000          |
| 2011                   | \$ 510,000          | \$ 189,400          | \$ 699,400          |
| 2012                   | \$ 535,000          | \$ 169,000          | \$ 704,000          |
| 2013                   | \$ 555,000          | \$ 147,600          | \$ 702,600          |
| 2014 - 2018            | \$ 3,135,000        | \$ 386,800          | \$ 3,521,800        |
| Total                  | <u>\$ 5,640,000</u> | <u>\$ 1,327,400</u> | <u>\$ 6,967,400</u> |

This debt will be retired from the Bond Retirement Fund (Debt Service Fund).

The amount of bonded indebtedness that can be incurred by the school district is limited by Sections 37-59-5 and 37-59-7, Miss. Code Ann. (1972). Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in Section 37-59-7, Miss. Code Ann. (1972) have been met. As of June 30, 2008, the amount of outstanding bonded indebtedness was equal to 3.6% of property assessments as of October 1, 2007.

B. Limited obligation bonds payable.

Limited obligation bonds are direct obligations and pledge the full faith and credit of the school district.

Limited obligation bonds currently outstanding are as follows:

South Panola School District  
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| Description  | Interest<br>Rate(s) | Issue<br>Date | Maturity<br>Date | Amount<br>Issued | Amount<br>Outstanding |
|--|---------------------|---------------|------------------|------------------|-----------------------|
| State aid capital improvement refunding bonds, series 2006 | 3.5 – 4.0           | 5-4-06        | 3-1-18           | \$ 6,140,000     | \$ 5,390,000          |

Details of the district's June 30, 2008 limited obligation bonds indebtedness are as follows:

| Year Ending<br>June 30 | Principal    | Interest     | Total        |
|------------------------|--------------|--------------|--------------|
| 2009                   | \$ 455,000   | \$ 205,131   | \$ 660,131   |
| 2010                   | \$ 470,000   | \$ 189,206   | \$ 659,206   |
| 2011                   | \$ 490,000   | \$ 172,168   | \$ 662,168   |
| 2012                   | \$ 505,000   | \$ 154,406   | \$ 659,406   |
| 2013                   | \$ 525,000   | \$ 136,100   | \$ 661,100   |
| 2014 – 2018            | \$ 2,945,000 | \$ 366,305   | \$ 3,311,305 |
| Total                  | \$ 5,390,000 | \$ 1,223,316 | \$ 6,613,316 |

This debt will be retired from the MAEP Bond Retirement Fund (Debt Service Fund).

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

C. Three mill notes payable.

Debt currently outstanding is as follows:

| Description                            | Interest<br>Rate(s) | Issue<br>Date | Maturity<br>Date | Amount<br>Issued | Amount<br>Outstanding |
|--|---------------------|---------------|------------------|------------------|-----------------------|
| Three mill ten year notes, series 2007 | 3.85 – 4.25         | 8-1-07        | 6-1-17           | \$ 1,500,000     | \$ 1,425,000          |

Details of the district's June 30, three mill ten year notes payable are as follows:

| Year Ending<br>June 30 | Principal    | Interest   | Total        |
|------------------------|--------------|------------|--------------|
| 2009                   | \$ 100,000   | \$ 58,167  | \$ 158,167   |
| 2010                   | \$ 105,000   | \$ 54,317  | \$ 159,317   |
| 2011                   | \$ 105,000   | \$ 50,222  | \$ 155,222   |
| 2012                   | \$ 165,000   | \$ 46,075  | \$ 211,075   |
| 2013                   | \$ 170,000   | \$ 39,475  | \$ 209,475   |
| 2014 – 2017            | \$ 780,000   | \$ 84,050  | \$ 864,050   |
| Total                  | \$ 1,425,000 | \$ 332,306 | \$ 1,757,306 |

This debt will be retired from the Three Mill Ten Year Note Retirement Fund (Debt Service Fund).

D. Shortfall notes payable.

Debt currently outstanding is as follows:

| Description           | Interest<br>Rate(s) | Issue<br>Date | Maturity<br>Date | Amount<br>Issued | Amount<br>Outstanding |
|-----------------------|---------------------|---------------|------------------|------------------|-----------------------|
| Shortfall notes, 2006 | 4.95                | 10-2-06       | 10-2-09          | \$ 99,114        | \$ 66,124             |

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Details of the district's June 30, shortfall notes payable are as follows:

| Year Ending<br>June 30 | Principal        | Interest        | Total            |
|------------------------|------------------|-----------------|------------------|
| 2009                   | \$ 32,984        | \$ 4,956        | \$ 37,940        |
| 2010                   | \$ 33,140        | \$ 2,564        | \$ 35,704        |
| Total                  | <u>\$ 66,124</u> | <u>\$ 7,520</u> | <u>\$ 73,644</u> |

This debt will be retired from the Shortfall Notes, 2006 Fund (Debt Service Fund).

E. Obligations under capital leases.

The obligations under capital lease were paid in full during the fiscal year.

F. Obligations under energy efficiency lease.

Debt currently outstanding is as follows:

| Description                          | Interest<br>Rate | Issue<br>Date | Maturity<br>Date | Amount<br>Issued | Amount<br>Outstanding |
|--------------------------------------|------------------|---------------|------------------|------------------|-----------------------|
| Honeywell energy<br>efficiency lease | 5.33             | 11-1-2000     | 5-1-09           | \$ 1,062,602     | \$ 104,307            |

Details of the district's June 30, energy efficiency lease payable are as follows:

| Year Ending<br>June 30 | Principal  | Interest and<br>Maintenance<br>Charges | Total      |
|------------------------|------------|--|------------|
| 2009                   | \$ 104,307 | \$ 3,850                               | \$ 108,157 |

An energy efficiency lease agreement dated March 31, 1999, was executed by and between the district, the lessee, and Citicorp-Honeywell, the lessor. The agreement authorized the borrowing of \$1,062,602 for the purchase of energy efficiency equipment, machinery, supplies building modifications and other energy saving items. Payments of the lease shall be made from the District Maintenance Fund (General Fund) and not exceed ten (10) years. The district entered into this energy efficiency lease agreement under the authority of Section 31-7-14, Miss. Code Ann. (1972). Upon written notice to the lessor, the lessee has the option of repaying the total amount due as set forth by the agreement.

G. 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:

| Description                     | Interest<br>Rate | Issue<br>Date | Maturity<br>Date | Amount<br>Issued | Amount<br>Outstanding |
|---------------------------------|------------------|---------------|------------------|------------------|-----------------------|
| Qualified zone academy<br>bonds | 0                | 8-12-04       | 8-12-14          | \$ 1,198,972     | \$ 1,198,972          |

H. Compensated absences payable.

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

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(7) Defined Benefit Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate for fiscal year ended June 30, 2008 was 11.85% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2008, 2007 and 2006 were \$2,364,125, \$2,169,126 and \$1,905,331, respectively, which equaled the required contributions for each year.

(8) Sixteenth Section Lands.

Sixteenth section school lands, or lands granted in lieu thereof, constitute property held in trust for the benefit of the public schools. The school board, under the general supervision of the Office of the Secretary of State, has control and jurisdiction of said school trust lands and of all funds arising from any disposition thereof. It is the duty of the school board to manage the school trust lands and all funds arising therefrom as trust property. Accordingly, the 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<br>June 30 | Amount            |
|------------------------|-------------------|
| 2009                   | \$ 28,476         |
| 2010                   | 28,476            |
| 2011                   | 28,476            |
| 2012                   | 28,476            |
| 2013                   | 28,476            |
| 2014 – 2017            | 142,380           |
| Total                  | \$ <u>284,760</u> |

(9) Prior Period Adjustments/Exhibits.

A summary of significant fund equity adjustments is as follows:

Exhibit B - Statement of Activities

| <u>Explanation(s)</u>  | <u>Amount</u>       |
|--|---------------------|
| Adjustment to capital assets – acquisition of land recorded twice in a prior year. | \$ <u>(342,690)</u> |

(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.

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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 Bank of America, has entered into such an arrangement dated August 12, 2004. 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 July 31. The required sinking fund is included as a component of the QZAB Debt Retirement Fund. The balance of the sinking fund in the amount of \$756,474 at June 30, 2008, represents an asset of the district that resides with the paying agent. The amount accumulated in the sinking fund at the end of the ten-year period will be sufficient to retire the debt. The following schedule reports the yearly deposits to be made to the sinking fund by the school district.

| Year Ending<br>June 30 | Amount            |
|------------------------|-------------------|
| 2009                   | \$ 230,000        |
| 2010                   | 230,000           |
| 2011                   | 230,000           |
| 2012                   | 144,975           |
| Total                  | \$ <u>834,975</u> |

(12) Deferred credit on Bonds Payable.

Upon the issuance of the interest free Quality Zone Academy Bonds, the district incurred a deferred credit on bonds payable in the amount of \$801,028. The deferred credit is based on imputed interest at a rate of 5.5%. This deferred credit is reported on Statement of Net Assets and as such will be amortized over the life of the bonds using the straight line method at an annual cost of \$80,103. The unamortized balance was \$480,616 at fiscal year end.

(13) Special Items.

During the year, the school district recognized as a Special Item a gain resulting from the amortized portion of the Deferred Credit on Bonds Payable in the amount of \$80,103 and a donation of capital assets of \$7,000 for a total of \$87,103.

REQUIRED SUPPLEMENTARY INFORMATION

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South Panola School District  
 Budgetary Comparison Schedule for the General Fund  
 For the Year Ended June 30, 2008

|  | Budgeted Amounts     |                       | Actual<br>(GAAP Basis) | Variances<br>Positive (Negative) |                    |
|--|----------------------|-----------------------|------------------------|----------------------------------|--------------------|
|  | Original             | Final                 |                        | Original<br>to Final             | Final<br>to Actual |
|  |                      |                       |                        |                                  |                    |
| <b>Revenues</b>  |                      |                       |                        |                                  |                    |
| Local sources  | \$ 8,089,430         | \$ 8,308,149          | \$ 8,308,149           | \$ 218,719                       | \$ -               |
| State sources  | \$ 21,070,223        | \$ 20,926,074         | \$ 20,926,074          | \$ (144,149)                     | \$ -               |
| Federal sources  | \$ 115,000           | \$ 335,950            | \$ 335,950             | \$ 220,950                       | \$ -               |
| <b>Total Revenues</b>  | <b>\$ 29,274,653</b> | <b>\$ 29,570,173</b>  | <b>\$ 29,570,173</b>   | <b>\$ 295,520</b>                | <b>\$ -</b>        |
| <b>Expenditures</b>  |                      |                       |                        |                                  |                    |
| Instruction  | \$ 17,312,823        | \$ 17,507,205         | \$ 17,507,205          | \$ (194,382)                     | \$ -               |
| Support services   | \$ 10,711,221        | \$ 10,508,707         | \$ 10,508,812          | \$ 202,514                       | \$ (105)           |
| Facilities acquisition and construction                      | \$ 150,000           | \$ -                  | \$ -                   | \$ 150,000                       | \$ -               |
| Debt service   |                      |                       |                        |                                  |                    |
| Principal  | \$ 136,009           | \$ 117,209            | \$ 117,209             | \$ 18,800                        | \$ -               |
| Interest   | \$ 10,386            | \$ 8,950              | \$ 8,950               | \$ 1,436                         | \$ -               |
| Other  | \$ 5,000             | \$ 4,905              | \$ 4,905               | \$ 95                            | \$ -               |
| <b>Total Expenditures</b>                                    | <b>\$ 28,325,439</b> | <b>\$ 28,146,976</b>  | <b>\$ 28,147,081</b>   | <b>\$ 178,463</b>                | <b>\$ (105)</b>    |
| <b>Excess (Deficiency) of Revenues<br/>Over Expenditures</b> | <b>\$ 949,214</b>    | <b>\$ 1,423,197</b>   | <b>\$ 1,423,092</b>    | <b>\$ 473,983</b>                | <b>\$ (105)</b>    |
| <b>Other Financing Sources (Uses)</b>                        |                      |                       |                        |                                  |                    |
| Sale of transportation equipment                             | \$ 2,000             | \$ 3,061              | \$ 3,061               | \$ 1,061                         | \$ -               |
| Sale of other property                                       | \$ 2,000             |                       | \$ -                   | \$ (2,000)                       | \$ -               |
| Operating transfers in                                       | \$ 2,705,000         | \$ 2,752,516          | \$ 678,006             | \$ 47,516                        | \$ (2,074,510)     |
| Operating transfers out                                      | \$ (3,635,000)       | \$ (3,911,452)        | \$ (1,476,942)         | \$ (276,452)                     | \$ 2,434,510       |
| <b>Total Other Financing Sources (Uses)</b>                  | <b>\$ (926,000)</b>  | <b>\$ (1,155,875)</b> | <b>\$ (795,875)</b>    | <b>\$ (229,875)</b>              | <b>\$ 360,000</b>  |
| <b>Net Change in Fund Balances</b>                           | <b>\$ 23,214</b>     | <b>\$ 267,322</b>     | <b>\$ 627,217</b>      | <b>\$ 244,108</b>                | <b>\$ 359,895</b>  |
| <b>Fund Balances</b>   |                      |                       |                        |                                  |                    |
| July 1, 2007   | \$ 3,499,620         | \$ 3,499,620          | \$ 3,499,620           | \$ -                             | \$ -               |
| June 30, 2008  | \$ 3,522,834         | \$ 3,766,942          | \$ 4,126,837           | \$ 244,108                       | \$ 359,895         |

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

South Panola School District  
 Budgetary Comparison Schedule for the Major Special Revenue Fund - Title I  
 For the Year Ended June 30, 2008

|  | Budgeted Amounts    |                     | Actual<br>(GAAP Basis) | Variances<br>Positive (Negative) |                    |
|--|---------------------|---------------------|------------------------|----------------------------------|--------------------|
|  | Original            | Final               |                        | Original<br>to Final             | Final<br>to Actual |
| <b>Revenues</b>  |                     |                     |                        |                                  |                    |
| Federal sources  | \$ 1,410,280        | \$ 1,257,374        | \$ 1,257,374           | \$ (152,906)                     | \$ -               |
| <b>Total Revenues</b>  | <u>\$ 1,410,280</u> | <u>\$ 1,257,374</u> | <u>\$ 1,257,374</u>    | <u>\$ (152,906)</u>              | <u>\$ -</u>        |
| <b>Expenditures</b>  |                     |                     |                        |                                  |                    |
| Instruction  | \$ 868,857          | \$ 875,800          | \$ 875,800             | \$ (6,943)                       | \$ -               |
| Support services   | \$ 408,530          | \$ 356,332          | \$ 356,332             | \$ 52,198                        | \$ -               |
| Noninstructional services                                    | \$ 32,894           | \$ 15,242           | \$ 15,242              | \$ 17,652                        | \$ -               |
| <b>Total Expenditures</b>                                    | <u>\$ 1,310,281</u> | <u>\$ 1,247,374</u> | <u>\$ 1,247,374</u>    | <u>\$ 62,907</u>                 | <u>\$ -</u>        |
| <b>Excess (Deficiency) of Revenues<br/>Over Expenditures</b> | <u>\$ 99,999</u>    | <u>\$ 10,000</u>    | <u>\$ 10,000</u>       | <u>\$ (89,999)</u>               | <u>\$ -</u>        |
| <b>Other Financing Sources (Uses)</b>                        |                     |                     |                        |                                  |                    |
| Operating transfers out                                      | \$ -                | \$ (10,000)         | \$ (10,000)            | \$ (10,000)                      | \$ -               |
| <b>Total Other Financing Sources (Uses)</b>                  | <u>\$ -</u>         | <u>\$ (10,000)</u>  | <u>\$ (10,000)</u>     | <u>\$ (10,000)</u>               | <u>\$ -</u>        |
| <b>Net Change in Fund Balances</b>                           | <u>\$ 99,999</u>    | <u>\$ -</u>         | <u>\$ -</u>            | <u>\$ (99,999)</u>               | <u>\$ -</u>        |
| <b>Fund Balances</b>   |                     |                     |                        |                                  |                    |
| July 1, 2007   | \$ -                | \$ -                | \$ -                   | \$ -                             | \$ -               |
| June 30, 2008  | <u>\$ 99,999</u>    | <u>\$ -</u>         | <u>\$ -</u>            | <u>\$ (99,999)</u>               | <u>\$ -</u>        |

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

South Panola School District  
 Budgetary Comparison Schedule for the Major Special Revenue Fund - EHA 94-142 Part B Fund  
 For the Year Ended June 30, 2008

|  | Budgeted Amounts    |                   | Actual<br>(GAAP Basis) | Variances<br>Positive (Negative) |                    |
|--|---------------------|-------------------|------------------------|----------------------------------|--------------------|
|  | Original            | Final             |                        | Original<br>to Final             | Final<br>to Actual |
| Revenues   |                     |                   |                        |                                  |                    |
| Federal sources                                      | \$ 1,270,436        | \$ 955,603        | \$ 955,603             | \$ (314,833)                     | \$ -               |
| Total Revenues                                       | <u>\$ 1,270,436</u> | <u>\$ 955,603</u> | <u>\$ 955,603</u>      | <u>\$ (314,833)</u>              | <u>\$ -</u>        |
| Expenditures   |                     |                   |                        |                                  |                    |
| Instruction  | \$ 927,859          | \$ 665,952        | \$ 665,952             | \$ 261,907                       | \$ -               |
| Support services                                     | \$ 342,577          | \$ 289,651        | \$ 289,651             | \$ 52,926                        | \$ -               |
| Total Expenditures                                   | <u>\$ 1,270,436</u> | <u>\$ 955,603</u> | <u>\$ 955,603</u>      | <u>\$ 314,833</u>                | <u>\$ -</u>        |
| Excess (Deficiency) of Revenues<br>Over Expenditures | <u>\$ -</u>         | <u>\$ -</u>       | <u>\$ -</u>            | <u>\$ -</u>                      | <u>\$ -</u>        |
| Total Other Financing Sources (Uses)                 | <u>\$ -</u>         | <u>\$ -</u>       | <u>\$ -</u>            | <u>\$ -</u>                      | <u>\$ -</u>        |
| Fund Balances  |                     |                   |                        |                                  |                    |
| July 1, 2007   | <u>\$ -</u>         | <u>\$ -</u>       | <u>\$ -</u>            | <u>\$ -</u>                      | <u>\$ -</u>        |
| June 30, 2008  | <u>\$ -</u>         | <u>\$ -</u>       | <u>\$ -</u>            | <u>\$ -</u>                      | <u>\$ -</u>        |

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

South Panola School District  
Notes to the Required Supplemental Information  
For the Year Ended June 30, 2008

(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 following the end of the fiscal year. A budgetary comparison is presented for the general fund and each major special revenue fund on the same basis of accounting as the budget which is consistent with accounting principles generally accepted in the United States.

SUPPLEMENTARY INFORMATION

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South Panola School District  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2008

| Federal Grantor/<br>Pass-through Grantor/<br>Program Title           | Catalog of<br>Federal Domestic<br>Assistance No. | Federal<br>Expenditures |
|--|--|-------------------------|
| <u>U.S. Department of Agriculture</u>                                |  |                         |
| Passed-through Mississippi Department of Education:                  |  |                         |
| Child nutrition cluster:   |  |                         |
| School breakfast program   | 10.553   | \$ 710,880              |
| National school lunch program  | 10.555   | \$ 1,723,544            |
| Total child nutrition cluster  |  | \$ 2,434,424            |
| Total U.S. Department of Agriculture                                 |  | \$ 2,434,424            |
| <u>U.S. Department of Labor</u>                                      |  |                         |
| Passed-through Mississippi Development Authority                     |  |                         |
| Workforce Investment Act - Youth Activities                          | 17.259   | \$ 196,062              |
| Total U.S. Department of Labor                                       |  | \$ 196,062              |
| <u>Federal Communications Commission</u>                             |  |                         |
| Administered through the Universal Service Administrative Company:   |  |                         |
| The school and libraries program of the universal service fund       | 32.XXX   | \$ 124,227              |
| Total Federal Communications Commission                              |  | \$ 124,227              |
| <u>U.S. Department of Education</u>                                  |  |                         |
| Passed-through Mississippi Department of Rehabilitation Services:    |  |                         |
| Rehabilitation services - vocational rehabilitation grants to states | 84.126   | \$ 103,394              |
| Total  |  | \$ 103,394              |
| Passed-through Mississippi Department of Education:                  |  |                         |
| Title I - grants to local educational agencies                       | 84.010   | \$ 1,257,374            |
| Career and technical education - basic grants to states              | 84.048   | \$ 48,108               |
| Safe and drug-free schools and communities - state grants            | 84.186   | \$ 46,658               |
| Twenty first century community learning centers                      | 84.287   | \$ 218,235              |
| State grants for innovative programs                                 | 84.298   | \$ 8,052                |
| Education technology - state grants                                  | 84.318   | \$ 12,512               |
| Rural education  | 84.358   | \$ 85,127               |
| English language acquisition grants                                  | 84.365   | \$ 14,176               |
| Improving teacher quality – state grants                             | 84.367   | \$ 324,836              |
| Grants for state assessments and related activities                  | 84.369   | \$ 230                  |
| Total  |  | \$ 2,015,308            |
| Special education cluster:   |  |                         |
| Special education - grants to states                                 | 84.027   | \$ 992,873              |
| Special education - preschool grants                                 | 84.173   | \$ 54,972               |
| Total  |  | \$ 1,047,845            |
| Total passed-through Mississippi Department of Education             |  | \$ 3,063,153            |
| Total U.S. Department of Education                                   |  | \$ 3,166,547            |

South Panola School District  
 Schedule of Expenditures of Federal Awards  
 For the Year Ended June 30, 2008

| Federal Grantor/<br>Pass-through Grantor/<br>Program Title    | Catalog of<br>Federal Domestic<br>Assistance No. | Federal<br>Expenditures |
|---|--|-------------------------|
| <u>Corporation for National and Community Service</u>         |  |                         |
| Passed-through the Mississippi Department of Education:       |  |                         |
| Learn and serve America - school and community based programs | 94.004   | \$ <u>15,000</u>        |
| Total Corporation for National and Community Service          |  | \$ <u>15,000</u>        |
| <br><u>Other Federal Assistance</u>                           |  |                         |
| Direct program:   |  |                         |
| Reserve Officers' Training Corps                              | 12.XXX   | \$ <u>80,336</u>        |
| Total Other Federal Assistance                                |  | \$ <u>80,336</u>        |
| Total for All Federal Awards                                  |  | \$ <u>6,016,596</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 basic financial statements.
2. The expenditure amounts include transfers out.
3. The pass-through entities did not assign identifying numbers to the school district.

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

| <u>Expenditures</u>          | <u>Total</u>         | <u>Instruction and<br/>Other Student<br/>Instructional<br/>Expenditures</u> | <u>General<br/>Administrative</u> | <u>School<br/>Administration</u> | <u>Other</u>         |
|------------------------------|----------------------|---|-----------------------------------|----------------------------------|----------------------|
| Salaries and fringe benefits | \$ 27,703,718        | \$ 20,940,694   | \$ 457,671                        | \$ 1,844,078                     | \$ 4,461,275         |
| Other                        | \$ 10,750,238        | \$ 2,434,167  | \$ 137,419                        | \$ 147,828                       | \$ 8,030,824         |
| Total                        | <u>\$ 38,453,956</u> | <u>\$ 23,374,861</u>  | <u>\$ 595,090</u>                 | <u>\$ 1,991,906</u>              | <u>\$ 12,492,099</u> |
| Total number of students     | <u>4,316</u>         |   |                                   |                                  |                      |
| Cost per student             | <u>\$ 8,910</u>      | <u>\$ 5,416</u>   | <u>\$ 138</u>                     | <u>\$ 462</u>                    | <u>\$ 2,894</u>      |

Notes to the schedule.

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.

General Administration - includes expenditures for the following functions: Support Services - General Administration and Support Services - Business.

School Administration - includes expenditures for the following function: Support Services - School Administration.

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

Total number of students - the ADA report submission for month 9, which is the final submission for the school year.

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OTHER SUPPLEMENTARY INFORMATION

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

UNAUDITED

|  | 2008                 | 2007*                 | 2006*                 | 2005*                 |
|--|----------------------|-----------------------|-----------------------|-----------------------|
| <b>Revenues</b>  |                      |                       |                       |                       |
| Local sources  | \$ 8,308,149         | \$ 7,646,018          | \$ 7,738,298          | \$ 6,716,904          |
| State sources  | \$ 20,926,074        | \$ 20,626,695         | \$ 19,413,931         | \$ 18,563,437         |
| Federal sources  | \$ 335,950           | \$ 200,329            | \$ 339,390            | \$ 155,504            |
| <b>Total Revenues</b>                                    | <b>\$ 29,570,173</b> | <b>\$ 28,473,042</b>  | <b>\$ 27,491,619</b>  | <b>\$ 25,435,845</b>  |
| <b>Expenditures</b>                                      |                      |                       |                       |                       |
| Instruction  | \$ 17,507,205        | \$ 16,540,858         | \$ 15,701,254         | \$ 14,168,562         |
| Support services   | \$ 10,508,812        | \$ 9,747,579          | \$ 9,146,427          | \$ 8,649,105          |
| Debt service   |                      |                       |                       |                       |
| Principal  | \$ 117,209           | \$ 198,122            | \$ 192,003            | \$ 185,319            |
| Interest   | \$ 8,950             | \$ 18,674             | \$ 22,917             | \$ 32,417             |
| Other  | \$ 4,905             | \$ 1,703              | \$ 2,908              | \$ 50                 |
| <b>Total Expenditures</b>                                | <b>\$ 28,147,081</b> | <b>\$ 26,506,936</b>  | <b>\$ 25,065,509</b>  | <b>\$ 23,035,453</b>  |
| <b>Excess (Deficiency) of Revenues Over Expenditures</b> | <b>\$ 1,423,092</b>  | <b>\$ 1,966,106</b>   | <b>\$ 2,426,110</b>   | <b>\$ 2,400,392</b>   |
| <b>Other Financing Sources (Uses)</b>                    |                      |                       |                       |                       |
| Proceeds of loans  | \$ -                 | \$ 99,114             | \$ -                  | \$ 292,298            |
| Insurances loss recoveries                               | \$ -                 | \$ 922                | \$ -                  | \$ 34,068             |
| Sale of transportation equipment                         | \$ 3,061             | \$ 3,681              | \$ -                  | \$ 1,089              |
| Sale of other property                                   | \$ -                 | \$ 1,857              | \$ -                  | \$ -                  |
| Operating transfers in                                   | \$ 678,006           | \$ 189,383            | \$ 712,160            | \$ 234,448            |
| Operating transfers out                                  | \$ (1,476,942)       | \$ (1,485,917)        | \$ (2,866,786)        | \$ (3,165,361)        |
| Other financing uses                                     | \$ -                 | \$ (17,940)           | \$ -                  | \$ -                  |
| <b>Total Other Financing Sources (Uses)</b>              | <b>\$ (795,875)</b>  | <b>\$ (1,208,900)</b> | <b>\$ (2,154,626)</b> | <b>\$ (2,603,458)</b> |
| <b>Net Change in Fund Balances</b>                       | <b>\$ 627,217</b>    | <b>\$ 757,206</b>     | <b>\$ 271,484</b>     | <b>\$ (203,066)</b>   |
| <b>Fund Balances</b>                                     |                      |                       |                       |                       |
| July 1   | \$ 3,499,620         | \$ 2,742,414          | \$ 2,470,930          | \$ 2,673,996          |
| June 30  | \$ 4,126,837         | \$ 3,499,620          | \$ 2,742,414          | \$ 2,470,930          |

\* Source - Prior year audit reports.

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

UNAUDITED

|  | 2008                 | 2007*                | 2006*                | 2005*                |
|--|----------------------|----------------------|----------------------|----------------------|
| <b>Revenues</b>  |                      |                      |                      |                      |
| Local sources  | \$ 10,087,336        | \$ 9,225,741         | \$ 8,499,182         | \$ 7,361,722         |
| Intermediate sources                                     | \$ 2,689             | \$ -                 | \$ -                 | \$ -                 |
| State sources  | \$ 22,334,138        | \$ 22,034,809        | \$ 21,000,525        | \$ 20,077,165        |
| Federal sources  | \$ 5,655,841         | \$ 5,698,812         | \$ 6,167,038         | \$ 5,577,621         |
| Sixteenth section sources                                | \$ 29,440            | \$ 30,254            | \$ 28,727            | \$ 29,205            |
| <b>Total Revenues</b>                                    | <b>\$ 38,109,444</b> | <b>\$ 36,989,616</b> | <b>\$ 35,695,472</b> | <b>\$ 33,045,713</b> |
| <b>Expenditures</b>                                      |                      |                      |                      |                      |
| Instruction  | \$ 21,413,005        | \$ 20,668,793        | \$ 20,239,518        | \$ 18,184,385        |
| Support services   | \$ 13,179,377        | \$ 11,196,038        | \$ 11,583,051        | \$ 11,960,738        |
| Noninstructional services                                | \$ 2,147,423         | \$ 2,077,263         | \$ 2,108,778         | \$ 1,898,765         |
| Sixteenth section  | \$ 1,458             | \$ -                 | \$ 610               | \$ 1,057             |
| Debt service   |                      |                      |                      |                      |
| Principal  | \$ 1,165,615         | \$ 980,685           | \$ 1,017,826         | \$ 936,120           |
| Interest   | \$ 533,339           | \$ 516,900           | \$ 641,776           | \$ 740,769           |
| Other  | \$ 13,739            | \$ 3,003             | \$ 8,186             | \$ 63,717            |
| <b>Total Expenditures</b>                                | <b>\$ 38,453,956</b> | <b>\$ 35,442,682</b> | <b>\$ 35,599,745</b> | <b>\$ 33,785,551</b> |
| <b>Excess (Deficiency) of Revenues Over Expenditures</b> | <b>\$ (344,512)</b>  | <b>\$ 1,546,934</b>  | <b>\$ 95,727</b>     | <b>\$ (739,838)</b>  |
| <b>Other Financing Sources (Uses)</b>                    |                      |                      |                      |                      |
| Proceeds of refunding bonds                              | \$ -                 | \$ -                 | \$ 11,780,000        | \$ -                 |
| Proceeds of loans  | \$ 1,500,000         | \$ 99,114            | \$ -                 | \$ 2,292,298         |
| Insurances loss recoveries                               | \$ -                 | \$ 922               | \$ -                 | \$ 34,068            |
| Sale of transportation equipment                         | \$ 3,061             | \$ 3,681             | \$ -                 | \$ 1,089             |
| Sale of other property                                   | \$ -                 | \$ 1,857             | \$ -                 | \$ -                 |
| Operating transfers in                                   | \$ 2,158,231         | \$ 1,927,483         | \$ 3,578,946         | \$ 3,414,586         |
| Other financing sources                                  | \$ -                 | \$ 368               | \$ 52,770            | \$ -                 |
| Operating transfers out                                  | \$ (2,158,231)       | \$ (1,927,483)       | \$ (3,578,946)       | \$ (3,414,586)       |
| Payment to refunded bond escrow agent                    | \$ -                 | \$ -                 | \$ (11,560,510)      | \$ -                 |
| Other financing uses                                     | \$ -                 | \$ (17,940)          | \$ -                 | \$ (985)             |
| <b>Total Other Financing Sources (Uses)</b>              | <b>\$ 1,503,061</b>  | <b>\$ 88,002</b>     | <b>\$ 272,260</b>    | <b>\$ 2,326,470</b>  |
| <b>Net Change in Fund Balances</b>                       | <b>\$ 1,158,549</b>  | <b>\$ 1,634,936</b>  | <b>\$ 367,987</b>    | <b>\$ 1,586,632</b>  |
| <b>Fund Balances</b>                                     |                      |                      |                      |                      |
| July 1   | \$ 8,289,152         | \$ 6,637,486         | \$ 6,269,556         | \$ 4,685,992         |
| Increase (Decrease) in reserve for inventory             | \$ (23,631)          | \$ 16,730            | \$ (57)              | \$ (3,068)           |
| June 30  | <u>\$ 9,424,070</u>  | <u>\$ 8,289,152</u>  | <u>\$ 6,637,486</u>  | <u>\$ 6,269,556</u>  |

\* Source - Prior year audit reports.

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

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# CHARLES L. SHIVERS

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

Superintendent and School Board  
South Panola School District

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South Panola School District as of and for the year ended June 30, 2008, which collectively comprise the district's basic financial statements and have issued my report thereon dated May 28, 2009. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

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

My 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, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the school district'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 school district's financial statements that is more than inconsequential will not be prevented or detected by the school district's internal control. I consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting. See Finding 2008-01, 2008-02, 2008-03, 2008-04 and 2008-05.

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

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in 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, I believe that none of the significant deficiencies described above is 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, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant

agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The school district's responses to the findings identified in my audit are described in the accompanying Auditee's Corrective Action Plan. I did not audit the school district's responses and, accordingly, I express no opinion on them.

This report is intended solely for the information and use of the district's 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.



Ridgeland, MS  
May 28, 2009

# CHARLES L. SHIVERS

*Certified Public Accountant*

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Ridgeland, Mississippi 39158

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

Superintendent and School Board  
South Panola School District

### Compliance

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

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

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

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

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

My consideration of 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 internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the district's 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.



Ridgeland, MS  
May 28, 2009

REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

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# CHARLES L. SHIVERS

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## REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Superintendent and School Board  
South Panola School District

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South Panola School District as of and for the year ended June 30, 2008, which collectively comprise South Panola School District's basic financial statements and have issued my report thereon dated May 28, 2009. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Section 37-9-18(3)(a), Miss. Code Ann. (1972), states in part, "the Auditor shall test to insure that the school district is complying with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds."

The results of my procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. However, providing an opinion on compliance with these requirements was not an objective of my audit and, accordingly, I do not express such an opinion. The district reported \$12,301 of classroom supply funds carried over from previous years.

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

The results of my procedures performed to test compliance with the requirements of Section 37-9-18(3)(b), Miss. Code Ann. (1972), disclosed no instances of noncompliance related to incorrect or inappropriate functional level expenditure coding. However, providing an opinion on compliance with these requirements was not an objective of my audit and, accordingly, I do not express such an opinion.

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

The results of procedures performed to test compliance with certain other state laws and regulations as required by the state legal compliance audit program prescribed by the Office of the Mississippi State Auditor and my audit of the financial statements did not disclose any instances of noncompliance with other state laws and regulations.

This report is intended solely for the information 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.



Ridgeland, MS  
May 28, 2009

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

Section 1: Summary of Auditor's Results

**Financial Statements:**

- |    |   |             |
|----|---|-------------|
| 1. | Type of auditor's report issued on the basic financial statements:                      | Unqualified |
| 2. | Material noncompliance relating to the basic financial statements?                      | No          |
| 3. | Internal control over financial reporting:  |             |
|    | a. Material weaknesses identified?  | No          |
|    | b. Significant deficiency 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 weaknesses identified?  | No            |
|     | b. Significant deficiency 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 program identified as major program:  |               |
|     | a. Child Nutrition Cluster  |               |
|     | CFDA #: 10.553  |               |
|     | CFDA #: 10.555  |               |
|     | b. Special Education Cluster  |               |
|     | CFDA #: 84.027  |               |
|     | CFDA#: 84.173   |               |
| 8.  | The dollar threshold used to distinguish between type A and type B programs:  | \$300,000     |
| 9.  | Auditee qualified as a low-risk auditee?  | No            |
| 10. | Prior fiscal year audit findings and questioned costs 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 deficiencies identified that are not considered to be material weaknesses.

Finding 2008-01

CONDITION: A high school bookkeeper performed all duties regarding the receipt of activity funds (receipted the funds, entered data into the accounting system, prepared the deposit slip and made the deposit).

CRITERIA: A well designed system of accounting controls for the receipt of activity funds would be such that no one individual performs all aspects of the transaction from beginning to end.

CAUSE OF CONDITION: The cause of the condition is the result of an inadequately designed system.

EFFECT OF CONDITION: This situation could result in errors occurring in receipt of activity fund transactions (posting, deposits, etc) with those errors not being prevented or detected in a timely manner.

RECOMMENDATION: It is recommended that the duties of receipting activity funds be segregated to the greatest extent possible such that no one individual performs all aspects of the transaction from beginning to end.

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

Finding 2008-02

CONDITION: Blank checks were not properly secured.

CRITERIA: A well designed system of accounting controls would have blank checks stored in a secured (locked) location with access only available to limited personnel.

CAUSE OF CONDITION: The cause of the condition is the result of an inadequately designed system.

EFFECT OF CONDITION: This condition could result in unaccounted for checks or stolen checks with the possibility of intentional misuse.

RECOMMENDATION: It is recommended that blank checks be kept in a secure and locked location.

Finding 2008-03:

CONDITION: The business manager prepares, approves, and enters all general journal entries.

CRITERIA: Good accounting controls would have these duties segregated to the greatest extent possible.

CAUSE OF CONDITION: The cause of the condition is the result of an inadequately designed system.

EFFECT OF CONDITION: This condition could lead to errors in preparing and / or entering general journal entries which could cause materially misstated financial statements.

RECOMMENDATION: It is recommended that these duties be segregated to the greatest extent possible such that no one individual performs all aspects of the transaction.

Finding 2008-04:

CONDITION: The accountant responsible for the upkeep and maintenance of the fixed assets does not review the physical inventories taken by the fixed asset clerk at each location nor does she conduct an annual 100% physical inventory.

CRITERIA: Appropriate internal accounting controls over fixed assets would have the individual responsible for the accounting and reporting of the inventory obtaining assurance of the existence and completeness of the fixed assets reported at each location.

CAUSE OF CONDITION: The cause of the condition is the result of an inadequately designed system.

EFFECT OF CONDITION: This condition could result in fixed assets not being reported, misappropriated or disposed fixed assets still being utilized by a location.

RECOMMENDATION: It is recommended that the client institute procedures requiring an independent review of the inventory procedures of the fixed assets clerk at each location and a 100% annual physical inventory.

Finding 2008-05:

CONDITION: The walkthrough and testing of cash disbursements revealed the client has not totally implemented a system of documenting the receipt of the good or service (receiving report) prior to payment of the good or service.

CRITERIA: Appropriate internal accounting controls of expenditures for goods and services should be such that prior to the payment of goods and services, the district is satisfied that the goods or services have been received by the district (documented by receiving report).

CAUSE OF CONDITION: The cause of the condition is the result of an inadequately designed system.

EFFECT OF CONDITION: This condition could result in the client paying for goods or services not received or received in an unacceptable condition.

RECOMMENDATION: It is recommended that the client require documented notice of the receipt of the goods or services before payment is made.

Section 3: Federal Award Findings and Questioned Costs

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

AUDITEE'S CORRECTIVE ACTION PLAN

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# South Panola School District

209 Boothe Street, Batesville, Mississippi 38606 / Phone (662) 563-9361 / Fax (662) 563-6077  
Web Site: [www.southpanola.k12.ms.us](http://www.southpanola.k12.ms.us)

May 28, 2009

As required by Section 315(c) of OMB Circular A-133, the South Panola 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.

## Finding 2008-01

### Corrective Action Plan

- a. Suzanne Covington
- b. Specific secretarial staff within the front office complex of the high school will receipt all funds received, and the money will be stored within a locked storage area to be picked up by the bookkeeper for further processing.
- c. Immediately

## Finding 2008-02

### Corrective Action Plan

- a. Suzanne Covington
- b. Blank checks will be kept in a locked filing cabinet inside the vault at the district office.
- c. Immediately

## Finding 2008-03

### Corrective Action Plan

- a. Suzanne Covington
- b. The superintendent, who understands the aspects of the journals, will approve all general journal entries when made by the business manager.
- c. Immediately

Finding 2008-04

Corrective Action Plan

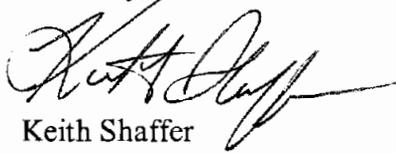
- a. Tina Hamby
- b. An annual 100% physical inventory has been conducted by the accountant and will continue annually. The accountant will review physical inventories made by fixed asset clerks at each location at least twice a year. Spot checks will be made randomly.
- c. 100% physical inventory has been completed. Checks will start August 1, 2009.

Finding 2008-05

Corrective Action Plan

- a. Suzanne Covington
- b. Professional development will be provided to all staff members in August, 2009, to all personnel to inform them that any goods received will be acknowledged to the accounts receivable clerk. This will be by sending to the clerk a packing slip, invoice, or other means that shows that the goods have been received and funds may be disbursed.
- c. Immediately with emphasis at meetings when school starts

Sincerely,



Keith Shaffer  
Superintendent