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**SOUTH TIPPAH SCHOOL DISTRICT
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

**SOUTH TIPPAH SCHOOL DISTRICT
AUDITED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED JUNE 30, 2008

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**SOUTH TIPPAH SCHOOL DISTRICT
AUDITED FINANCIAL STATEMENTS**

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FINANCIAL AUDIT REPORT

EATON, BABB & SMITH
C E R T I F I E D P U B L I C A C C O U N T A N T S

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

Superintendent and School Board
South Tippah School District

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2008, on our consideration of the South Tippah School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 7 through 15 and the Budgetary Comparison Schedule and corresponding notes on pages 38 through 39 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

Eaton, Babb + Smith

Ripley, Mississippi
December 1, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The discussion and analysis of the South Tippah School District's financial performance provides an overall narrative review of the District's financial activities for the year ended June 30, 2008. The intent of this discussion and analysis is to look at the District's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the 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 \$522,758, which represents a 2.93% increase from fiscal year 2007. After meeting the needs of the students, the District was conservative with expenditures for FY 2008 in anticipation of capital building projects.
- General revenues account for \$16,931,003, or 80.09% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$4,208,471 or 19.91% of total revenues.
- The District had \$20,688,816 in expenses; only \$4,208,471 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$16,931,003 were adequate to provide for these programs.
- Among major funds, the General Fund had \$17,050,239 in revenues and \$18,323,947 in expenditures. The General Fund's fund balance decreased \$1,105,756 over the prior year.
- Capital assets, net of accumulated depreciation, increased by \$2,080,639. The increase was mainly due to the addition of \$2,233,912 in construction in progress for the Pine Grove classrooms and media center, the Ripley Middle media/classroom building, the Ripley High gym, and the Tippah Career and Technology Center roofing and paving projects. The Pine Grove and Tippah Career and Technology Center projects were completed by June 30, 2008.
- Long-term debt increased by \$421,642.

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 services and interest on long-term liabilities.

The government-wide financial statements can be found on pages 17 - 18 of this report.

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

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's current financing requirements. Governmental Funds are reported using modified accrual accounting. This method of accounting measures cash and other assets that can be easily converted to cash. The Governmental Funds Statements provide a detailed short-term view of the school district's operations. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 20 and 22, respectively, of this report.

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

The basic governmental fund financial statements can be found on pages 19 and 21 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The school district's fiduciary activities are presented in a separate Statement of Fiduciary Assets and Liabilities on page 23.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24 - 36 of this report.

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund. This required supplementary information can be found on pages 38 - 39 of this report.

Additionally, a Schedule of Expenditures of Federal Awards is required by OMB Cir. A-133 and can be found on page 41- 42 of this report. A Schedule of Instructional, Administrative, and Other Expenditures for Governmental Funds as required by the Mississippi State Auditor's Office is on page 43. A Statement of Revenues, Expenditures, and Changes in Fund Balances – General Fund – Last Four Years and a Statement of Revenues, Expenditures, and Changes in Fund Balances – All Governmental Funds – Last Four Years as required by the Mississippi Department of Education are on pages 45 and 46.

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 \$18,387,477 as of June 30, 2008, which represents a 2.93% increase from fiscal year 2007. (See Table 1.)

By far the largest portion of the District's net assets (65.18%) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment and furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

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

Table 1 provides a summary of the District's net assets for 2008 compared to 2007:

Table 1
Condensed Statement of Net Assets

	<u>2008</u>	<u>2007</u>	<u>Total Percentage Change 2007-2008</u>
Current assets	\$ 7,439,991	\$ 8,320,367	-10.58%
Capital assets, net	12,117,953	10,037,314	20.73%
Total Assets	19,557,944	18,357,681	6.54%
Current liabilities	599,974	344,111	74.35%
Long-term debt outstanding	570,493	148,851	283.26%
Total Liabilities	1,170,467	492,962	137.44%
Net assets:			
Invested in capital assets, net of related debt	11,984,053	10,037,314	19.40%
Restricted	5,975,565	539,474	1,007.67%
Unrestricted	427,859	7,287,931	-94.13%
Total net assets	\$ 18,387,477	\$ 17,864,719	2.93%

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

- The addition of \$354,627 in construction in progress for the Pine Grove classrooms and media center capital building projects.
- The addition of \$1,103,162 in construction in progress for the Ripley High gym capital building project.
- The addition of \$652,476 in construction in progress for the Ripley Middle media/classroom building capital building project.
- The acquisition of three buses in the amount of \$189,750.
- New debt in the amount of \$381,368 was issued.

Changes in net assets. The District's total revenues increased 3.11% to \$21,139,474. (See Table 2.) State revenues accounted for most of the District's revenue contributing about 66 cents of every dollar raised. (See Figure 1.) Another 16% came from operating grants and contributions, 11% from property taxes and the remainder from fees charged for services, interest earnings, federal revenue and other sources.

The total cost of all programs and services rose 6.43% to \$20,688,816. The District's expenses are predominantly related to educating students 63%. (See Figure 2.) The \$856,869 or 7.07% increase in instruction costs derives largely from salary increases for teachers and other educational staff.

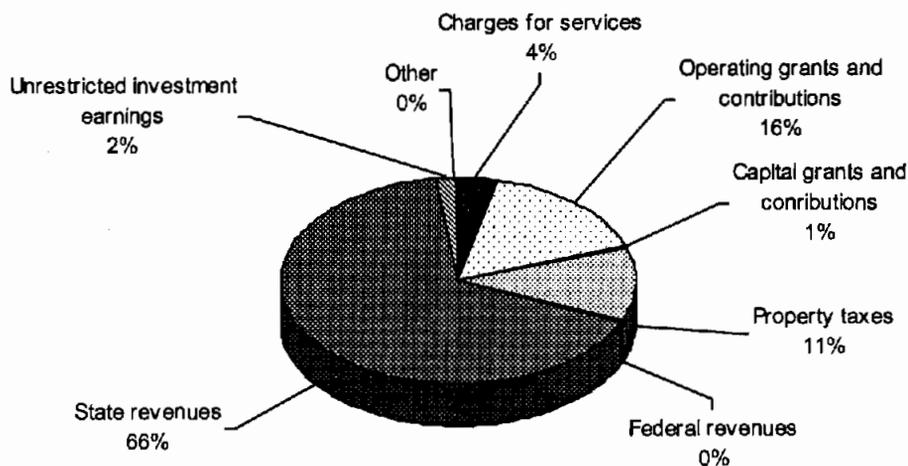
Total revenues surpassed expenses, increasing net assets \$522,758 over last year.

Table 2 shows the changes in net assets for fiscal year 2008 compared to 2007:

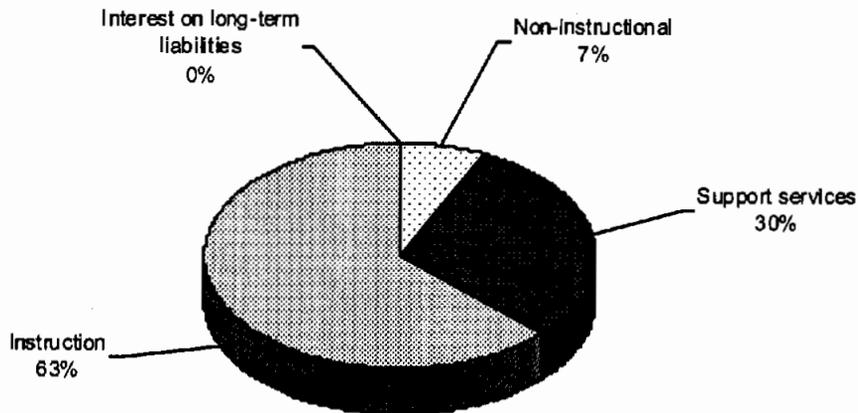
Table 2
Changes in Net Assets

	<u>2008</u>	<u>2007</u>	<u>Total Percentage Change 2007-2008</u>
Revenues:			
Program revenues:			
Charges for services	\$ 784,729	\$ 828,947	-5.33%
Operating grants and contributions	3,309,484	3,753,121	-11.82%
Capital grants and contributions	114,258	166,000	-31.17%
General revenues:			
Property taxes	2,403,787	1,955,319	22.94%
Grants and contributions not restricted:			
State	13,985,074	13,192,946	6.00%
Federal	102,480	129,934	-21.13%
Unrestricted investment earnings	364,587	422,842	-13.78%
Other	75,075	52,398	43.28%
Total revenues	<u>21,139,474</u>	<u>20,501,507</u>	3.11%
Expenses:			
Instruction	12,975,463	12,118,594	7.07%
Support services	6,280,480	6,000,569	4.66%
Non-instructional	1,422,110	1,320,065	7.73%
Interest on long-term liabilities	10,763	-	-
Total expenses	<u>20,688,816</u>	<u>19,439,228</u>	6.43%
Transfer from other district	72,100	-	-
Increase in net assets	<u>522,758</u>	<u>1,062,279</u>	-50.79%
Net Assets, July 1	<u>17,864,719</u>	<u>16,802,440</u>	6.32%
Net Assets, June 30	<u>\$ 18,387,477</u>	<u>\$ 17,864,719</u>	2.93%

Figure 1
Sources of Revenues for Fiscal Year 2008



**Figure 2
Expenses for Fiscal Year 2008**



Governmental activities. Table 3 presents the cost of four major District functional activities: instruction, support services, non-instructional and interest on long-term liabilities. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and District's taxpayers by each of these functions.

**Table 3
Net Cost of Governmental Activities**

	Total Expenses		Percentage Change 2007-2008	Net(Expense) Revenue		Percentage Change 2007-2008
	2008	2007		2008	2007	
Instruction	\$ 12,975,463	\$ 12,118,594	7.07%	\$ (10,657,581)	\$ (9,472,581)	12.51%
Support services	6,280,480	6,000,569	4.66%	(5,553,703)	(5,002,656)	11.02%
Non-instructional	1,422,110	1,320,065	7.73%	(258,298)	(215,923)	19.63%
Interest on long-term liabilities	10,763	-	-	(10,763)	-	-
Total expenses	\$ 20,688,816	\$ 19,439,228	6.43%	\$ (16,480,345)	\$ (14,691,160)	12.18%

- Net cost of governmental activities (\$16,480,345) was financed by general revenue, which is made up of primarily property taxes \$2,403,787 and state revenue of \$13,985,074.
- Interest earnings accounted for \$364,587 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 \$6,850,780, a decrease of \$1,125,476. \$1,312,095 or 19.15% 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 \$5,538,685 or 80.85% is reserved or designated to indicate that it is not available for spending because it has already been committed for specified purposes.

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was \$1,105,756. The fund balance of Other Governmental Funds showed a decrease of \$19,720.

BUDGETARY HIGHLIGHTS

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

- Budget amounts for General Fund revenue from state sources overestimated MAEP and per capita revenue in the amount of \$121,134.
- Budget amounts for General Fund revenue from federal sources did not consider E-rate revenue in the amount of \$29,486.
- Budgeted amounts for facilities acquisition and construction expenditures were decreased due primarily to school construction being delayed until the next fiscal year.
- Actual expenditures for maintenance and operations of school facilities were below budgeted levels.
- Actual expenditures were below budget, primarily because the District budgets from fund balance for unplanned expenditures (contingency). The District didn't spend the entire contingency amount.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2008, the District had invested \$12,117,953 in a broad range of capital assets, including land, school buildings, buses, other school vehicles and furniture and equipment. (See Table 4.) This amount represents a net increase of \$2,080,639, or 20.73%, from the previous year. The increase was mainly due to the addition of \$2,233,912 in construction in progress for the Pine Grove classrooms and media center, the Ripley Middle media/classroom building, the Ripley High gym, and the Tippah Career and Technology Center roofing and paving projects. The Pine Grove and Tippah Career and Technology Center projects were completed by June 30, 2008. Remaining commitments under construction contracts at June 30, 2008 total \$5,455,810. Total accumulated depreciation as of June 30, 2008 was \$6,075,973 and total depreciation expense for the year was \$455,769, resulting in total net assets of \$12,117,953. Table 4 shows fiscal 2008 compared to 2007:

Table 4
Capital Assets at June 30
(Net of Depreciation)

	2008	2007	Total Percentage Change 2007-2008
Land	\$ 170,967	\$ 125,891	35.81%
Construction in progress	1,797,224	1,127,627	59.38%
Buildings	8,061,827	6,825,752	18.11%
Building Improvements	551,633	454,318	21.42%
Improvements other than buildings	367,312	387,813	-5.29%
Mobile Equipment	998,972	951,278	5.01%
Furniture and equipment	170,018	164,635	3.27%
Totals	\$ 12,117,953	\$ 10,037,314	20.73%

Additional information of the District's capital assets can be found in Note 4 on pages 31 – 32 of this report.

Debt Administration. At June 30, 2008, the District had \$570,493 in long-term debt outstanding, of which \$145,776 is due within one year. Table 5 shows fiscal year 2008 compared to 2007:

Table 5
Outstanding Long-Term Debt at June 30

	2008	2007	Total Percentage Change 2007-2008
Three-mill note payable	\$ 133,900	\$ -	-
Shortfall note payable	247,468	-	-
Compensated absences payable	189,125	148,851	27.06%
Totals	\$ 570,493	\$ 148,851	283.26%

Additional information of the District's long-term debt can be found in Note 5 on pages 32 - 33 of this report.

CURRENT ISSUES

The South Tippah 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 millage has decreased 0.43 mills from the prior year and increased 1.58 mills for the next fiscal year. In addition, the District system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

Latest enrollment figures indicate that student enrollment in the District will remain unchanged over the next fiscal year. The budget for the next fiscal year has taken this into account in both funding and staffing needs.

On August 13, 2008 the District approved a resolution to obtain a shortfall note for the July 2008 payment on the Series 2007 Revenue Shortfall Note.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the South Tippah School District, P. O. Box 439, 402 Greenlee Avenue, Ripley, MS 38663.

FINANCIAL STATEMENTS

**SOUTH TIPPAH SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2008**

Exhibit A

	<u>Governmental Activities</u>
ASSETS:	
Cash and cash equivalents	\$ 7,016,080
Due from other governments	366,388
Accrued interest receivable	24,648
Inventories	32,875
Capital assets, non-depreciable:	
Land	170,967
Construction in progress	1,797,224
Capital assets, net of accumulated depreciation:	
Buildings	8,061,827
Building improvements	551,633
Improvements other than buildings	367,312
Mobile equipment	998,972
Furniture and equipment	170,018
Total Assets	<u><u>\$ 19,557,944</u></u>
LIABILITIES:	
Accounts payable and accrued liabilities	\$ 579,634
Unearned revenue	9,577
Interest payable on long-term liabilities	10,763
Long-term liabilities, due within one year:	
Capital related liabilities	66,123
Non-capital related liabilities	79,653
Long-term liabilities, due beyond one year:	
Capital related liabilities	67,777
Non-capital related liabilities	356,940
Total Liabilities	<u><u>1,170,467</u></u>
NET ASSETS:	
Invested in capital assets, net of related debt	11,984,053
Restricted net assets:	
Expendable:	
School-based activities	469,755
Capital improvements	5,455,810
Unemployment benefits	50,000
Unrestricted	427,859
Total Net Assets	<u><u>18,387,477</u></u>
Total Liabilities and Net Assets	<u><u>\$ 19,557,944</u></u>

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

**SOUTH TIPPAH SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**

Exhibit B

Functions/Programs	Expenses	Charges for Services	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
			Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction	\$ 12,975,463	\$ 500,441	\$ 1,711,731	\$ 105,710	\$ (10,657,581)
Support services	6,280,480	-	718,229	8,548	(5,553,703)
Non-instructional services	1,422,110	284,288	879,524	-	(258,298)
Interest on long-term liabilities	10,763	-	-	-	(10,763)
Total Governmental Activities	\$ 20,688,816	\$ 784,729	\$ 3,309,484	\$ 114,258	\$ (16,480,345)
General Revenues:					
Taxes:					
General purpose levies					2,403,787
Unrestricted grants and contributions:					
State					13,985,074
Federal					102,480
Unrestricted investment earnings					364,587
Other					75,075
					16,931,003
Transfer from other district					72,100
					17,003,103
					522,758
Change in Net Assets					522,758
Net Assets - Beginning					17,864,719
Net Assets - Ending					\$ 18,387,477

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

**SOUTH TIPPAH SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2008**

Exhibit C

	<u>Major Fund</u>		<u>Total</u>
	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 6,574,117	\$ 441,963	\$ 7,016,080
Due from other governments	249,995	116,393	366,388
Accrued interest receivable	23,275	1,373	24,648
Due from other funds	86,008	45,885	131,893
Inventories	-	32,875	32,875
Total Assets	\$ 6,933,395	\$ 638,489	\$ 7,571,884
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 556,484	\$ 23,150	\$ 579,634
Due to other funds	45,885	86,008	131,893
Unearned revenue	-	9,577	9,577
Total Liabilities	602,369	118,735	721,104
Fund Balances:			
Reserved for:			
Inventory	-	32,875	32,875
Capital projects	5,455,810	-	5,455,810
Unemployment benefits	-	50,000	50,000
Unreserved:			
Undesignated, reported in:			
General Fund	875,216	-	875,216
Special Revenue Funds	-	436,879	436,879
Total Fund Balances	6,331,026	519,754	6,850,780
Total Liabilities and Fund Balances	\$ 6,933,395	\$ 638,489	\$ 7,571,884

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

**SOUTH TIPPAH SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008**

Exhibit C-1

Total Fund Balance - Governmental Funds **\$ 6,850,780**

Amounts reported for governmental activities in the Statement
of Net Assets are different because:

1. Capital assets are used in governmental activities and are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$6,075,973. 12,117,953

2. Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. (570,493)

3. Governmental funds recognize interest on long-term liabilities when it becomes due; however, the Statement of Net Assets recognizes interest as it accrues. (10,763)

Total Net Assets - Governmental Activities **\$ 18,387,477**

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

**SOUTH TIPPAH SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

Exhibit D

	<u>Major Fund</u>	<u>Other</u>	<u>Total</u>
	<u>General</u>	<u>Governmental</u>	<u>Governmental</u>
	<u>Fund</u>	<u>Funds</u>	<u>Funds</u>
REVENUES:			
Local sources	\$ 3,114,375	\$ 551,792	\$ 3,666,167
State sources	13,819,538	904,696	14,724,234
Federal sources	116,326	2,591,253	2,707,579
Total Revenues	17,050,239	4,047,741	21,097,980
EXPENDITURES:			
Instruction	10,638,382	2,119,264	12,757,646
Support services	5,258,326	989,341	6,247,667
Non-instructional services	271,898	1,146,073	1,417,971
Facilities acquisition and construction	2,155,341	141,648	2,296,989
Total Expenditures	18,323,947	4,396,326	22,720,273
Excess (Deficiency) of Revenues over Expenditures	(1,273,708)	(348,585)	(1,622,293)
OTHER FINANCING SOURCES (USES):			
Proceeds of loans	247,468	133,900	381,368
Insurance loss recoveries	-	9,987	9,987
Sale of transportation equipment	1,362	502	1,864
Sale of other property	31,507	501	32,008
Operating transfers in	4,542	116,927	121,469
Other financing sources	-	72,100	72,100
Operating transfers out	(116,927)	(4,542)	(121,469)
Total Other Financing Sources (Uses)	167,952	329,375	497,327
NET CHANGE IN FUND BALANCES	(1,105,756)	(19,210)	(1,124,966)
FUND BALANCES:			
July 1, 2007	7,436,782	539,474	7,976,256
Decrease in Reserve for Inventory	-	(510)	(510)
June 30, 2008	\$ 6,331,026	\$ 519,754	\$ 6,850,780

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

**SOUTH TIPPAH SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**

Exhibit D-1

Net Change in Fund Balances - Governmental Funds **\$ (1,124,966)**

Amounts reported for governmental activities in the Statement of Activities are different because:

- | | |
|---|-----------|
| 1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the lives of the assets. Capital assets purchased amounted to \$2,540,772, and the depreciation expense amounted to \$455,769. | 2,085,003 |
| 2. The issuance of long-term debt provides current financial resources to governmental funds, but the issuance increases long-term liabilities in the Statement of Net Assets. | (381,368) |
| 3. Gains and losses on the sale or disposal of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds. | (4,364) |
| 4. Governmental funds recognize interest on long-term debt when it becomes due; however, the Statement of Activities recognizes interest as it accrues regardless of when it becomes due. | (10,763) |
| 5. Increase (decrease) in inventory is reported as an adjustment to fund balance in the governmental funds, but non-instructional expenditures are (decreased) increased in the Statement of Activities. | (510) |
| 6. Expenses in the Statement of Activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds: | |
| Compensated absences | (40,274) |

Change in Net Assets of Governmental Activities **\$ 522,758**

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

**SOUTH TIPPAH SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2008**

Exhibit E

	<u>Agency Funds</u>
ASSETS:	
Cash and cash equivalents	\$ 826,055
Total Assets	<u>\$ 826,055</u>
LIABILITIES:	
Accounts payable and accrued liabilities	\$ 715,823
Due to student clubs	<u>110,232</u>
Total Liabilities	<u>\$ 826,055</u>

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

**SOUTH TIPPAH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

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

B. Basis of Presentation

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

Government-Wide Financial Statements :

The Statement of Net Assets and Statement of Activities display information about the school district as a whole. They include all funds of the reporting entity except for fiduciary funds. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues.

The Statement of Net Assets presents the financial condition of the governmental activities of the school district at yearend. The government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the school district's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the school district, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the school district.

Fund Financial Statements:

Fund financial statements of the school district are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category.

**SOUTH TIPPAAH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 is the fiduciary fund financial statement. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flow takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Program revenues on the Statement of Activities consist primarily of state appropriations and federal awards.

In the fund financial statements, governmental funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Property taxes, state appropriations, and federal awards associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

The school district reports the following major governmental fund:

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

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

FIDUCIARY FUNDS

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

**SOUTH TIPPAH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Account Classifications

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

E. Encumbrances

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

F. Cash and Cash Equivalents

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.

Cash and cash equivalents consists of amounts on deposit in demand accounts and certificates of deposit with maturities of three months or less. Cash and cash equivalents are valued at cost.

G. Investments

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

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

Investments are reported at fair value.

H. 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 TIPPAH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Capital Assets

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.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed assets are reported at estimated fair value at the time received.

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are reported in the government-wide statements.

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

	<u>Capitalization Policy</u>	<u>Estimated 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 4 for details.

J. Long-Term Liabilities

Long-term liabilities are the unmatured principal of bonds, warrants, notes, or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments. In the government-wide Statement of Net Assets, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column. See Note 5 for details.

K. Interfund Transactions and Balances

Interfund transactions and balances are the result of timing differences between the date expenditures occur and the date payments are made.

Short-term (due within one year) interfund loan receivables are reported as "due from other funds" and are considered available expendable resources.

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 3 for details for interfund transactions, including receivables and payables at yearend. 27

**SOUTH TIPPAH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Equity Classifications

Government-Wide Financial Statements:

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statements:

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

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

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

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

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

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

M. Property Taxes

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.

**SOUTH TIPPAH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Mississippi Adequate Education Program Revenues

Revenues from the adequate education program are appropriated on a fiscal year basis and are recorded at the time the revenues are received from the State of Mississippi.

O. Compensated Absences

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

P. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Estimates are used when accounting for realizability of receivables and depreciation. Accordingly, actual results could differ from those estimates.

NOTE 2 - CASH AND CASH EQUIVALENTS

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

Deposits. The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the school district's deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Mississippi 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.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$7,016,080 and \$826,055, respectively. The carrying amount of deposits reported in the government-wide financial statements was: Cash and Cash Equivalents - \$7,016,080. The bank balance was \$8,197,000.

**SOUTH TIPPAH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE 2 - CASH AND CASH EQUIVALENTS (Continued)

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 institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2008, none of the district's bank balance of \$8,197,000 was exposed to custodial credit risk.

NOTE 3 - INTERFUND TRANSACTIONS AND BALANCES

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:	<u>Due From</u>	<u>Due To</u>
Governmental Funds:		
General fund	\$ 86,008	\$ 45,885
Other governmental funds	45,885	86,008
Fiduciary Funds	<u>-</u>	<u>-</u>
Total	<u>\$ 131,893</u>	<u>\$ 131,893</u>

Interfund receivables and payables resulted primarily from the general fund's loans to various special revenue funds to cover cash deficits in pooled bank accounts.

B. Transfers In/Out:	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
General fund	\$ 4,542	\$ 116,927
Other governmental funds	116,927	4,542
Fiduciary Funds	<u>-</u>	<u>-</u>
Total	<u>\$ 121,469</u>	<u>\$ 121,469</u>

Interfund transfers were made for budgetary purposes.

**SOUTH TIPPAH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE 4 - CAPITAL ASSETS

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

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Completed</u> <u>Construction</u>	<u>Balance</u> <u>June 30, 2008</u>
<u>Non-depreciable capital assets:</u>					
Land	\$ 125,891	\$ 45,076	\$ -	\$ -	\$ 170,967
Construction in progress	<u>1,127,627</u>	<u>2,233,912</u>	<u>-</u>	<u>(1,564,315)</u>	<u>1,797,224</u>
Total non-depreciable capital assets	<u>1,253,518</u>	<u>2,278,988</u>	<u>-</u>	<u>(1,564,315)</u>	<u>1,968,191</u>
<u>Depreciable capital assets:</u>					
Buildings	10,112,125	-	-	1,438,183	11,550,308
Building improvements	693,677	-	-	126,132	819,809
Improvements other than buildings	512,535	-	-	-	512,535
Mobile equipment	2,505,035	208,729	38,540	-	2,675,224
Furniture and equipment	<u>665,830</u>	<u>53,055</u>	<u>51,026</u>	<u>-</u>	<u>667,859</u>
Total depreciable capital assets	<u>14,489,202</u>	<u>261,784</u>	<u>89,566</u>	<u>1,564,315</u>	<u>16,225,735</u>
<u>Less accumulated depreciation for:</u>					
Buildings	3,286,373	202,108	-	-	3,488,481
Building improvements	239,359	28,817	-	-	268,176
Improvements other than buildings	124,722	20,501	-	-	145,223
Mobile equipment	1,553,757	157,181	34,686	-	1,676,252
Furniture and equipment	<u>501,195</u>	<u>47,162</u>	<u>50,516</u>	<u>-</u>	<u>497,841</u>
Total accumulated depreciation	<u>5,705,406</u>	<u>455,769</u>	<u>85,202</u>	<u>-</u>	<u>6,075,973</u>
Total depreciable capital assets, net	<u>8,783,796</u>	<u>(193,985)</u>	<u>4,364</u>	<u>1,564,315</u>	<u>10,149,762</u>
Governmental activities capital assets, net	<u>\$ 10,037,314</u>	<u>\$ 2,085,003</u>	<u>\$ 4,364</u>	<u>\$ -</u>	<u>\$ 12,117,953</u>

**SOUTH TIPPAH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE 4 - CAPITAL ASSETS (Continued)

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 230,839
Support services	221,338
Non-instructional services	3,592
Total depreciation expense	\$ 455,769

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

	Remaining Commitment	Required Future Financing
Ripley High Gym and Ripley Middle Media/Classroom Building	\$ 5,455,810	\$ -

NOTE 5 - LONG-TERM LIABILITIES

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

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Amounts Due Within One Year
A. Three mill note payable	\$ -	\$ 133,900	\$ -	\$ 133,900	\$ 66,123
B. Shortfall note payable	-	247,468	-	247,468	79,653
C. Compensated absences payable	148,851	44,240	3,966	189,125	-
Total	\$ 148,851	\$ 425,608	\$ 3,966	\$ 570,493	\$ 145,776

A. Three Mill Note Payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Three Mill Note Series 2007	2.50%	10/18/07	10/18/09	\$ 133,900	\$ 133,900

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

Year Ending June 30	Principal	Interest	Total
2009	\$ 66,123	\$ 3,348	\$ 69,471
2010	67,777	1,694	69,471
	\$ 133,900	\$ 5,042	\$ 138,942

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

**SOUTH TIPPAH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE 5 - LONG-TERM LIABILITIES (Continued)

B. Shortfall Note Payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Revenue Shortfall Note Series 2007	3.50%	7/11/07	7/11/10	\$ 247,468	\$ 247,468

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

Year Ending June 30	Principal	Interest	Total
2009	\$ 79,653	\$ 8,685	\$ 88,338
2010	82,464	5,874	88,338
2011	85,351	2,987	88,338
	<u>\$ 247,468</u>	<u>\$ 17,546</u>	<u>\$ 265,014</u>

This debt will be retired from the Shortfall Notes Debt Service Fund.

C. Compensated absences payable

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

NOTE 6 - 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 rate for fiscal year ended June 30, 2008, was 11.85% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2008, 2007, and 2006 were \$1,348,084, \$1,225,746, and \$1,120,520, respectively, which equaled the required contributions for each year.

NOTE 7 - OTHER COMMITMENTS.

Commitments under construction contracts are described in Note 4.

**SOUTH TIPPAAH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE 8 - RISK MANAGEMENT

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

Participation in Public Entity Risk Pool

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 95 school districts and one community college and covers risks of loss arising from injuries to the member's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Wells Fargo Bank in Portland, OR. 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.

On September 30, 2005, South Tippah School District was assessed an additional \$834, based upon its years of membership in the MSBAWCT. This assessment is allowed to be repaid at a rate of 5% of the current premium per year until the total assessment is fully paid as long as the district continues as a member. If members leave the pool, they must repay the complete balance of the assessment within two years in equal installments.

NOTE 9 - ALTERNATIVE SCHOOL CONSORTIUM

The school district entered into an Alternative School Agreement dated March 20, 1996 and revised October 1999, creating the New Albany, South Tippah, Union County Behavioral Management School. This consortium was created pursuant to the provisions of Section 37-13-92 (6), Miss. Code Ann. (1972), and approved by the Mississippi Department of Education and includes the New Albany School District, the South Tippah School District and the Union County School District.

**SOUTH TIPPAH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE 9 - ALTERNATIVE SCHOOL CONSORTIUM (Continued)

Section 37-13-92 (6), Miss. Code Ann. (1972), allows two or more adjacent school districts to enter into a contract to operate an alternative school program. The school board of the school district designated by the agreement as the lead district will serve as the governing board of the alternative school program. Transportation for students attending the alternative school program will be the responsibility of the individual school district sending the students.

The New Albany School District has been designated as the lead school district for the New Albany, South Tippah, Union County Behavioral Management School and the operations of the consortium are included in its financial statements.

NOTE 10 - VOCATIONAL SCHOOL CENTER

The school district entered into a Vocational Educational Agreement dated August 24, 1981, creating the North and South Tippah County Vocational-Technical Center. This center was created pursuant to the provisions of Section 37-31-73, Miss. Code Ann. (1972), and was approved by the Mississippi Department of Education. The center includes the North Tippah School District and the South Tippah School District. The name of the center has been changed to the Tippah Career and Technology Center.

Section 37-31-73, Miss. Code Ann. (1972), authorizes the above noted entities to enter into an agreement that would provide for the construction or operation of a regional vocational education center. Any such agreement should provide for a designated fiscal agent, the method of financing the construction and operation of such facilities, the manner in which such facilities are to be controlled and staffed, and detailed procedures for student admission and transportation services for those students.

The South Tippah School District has been designated as the fiscal agent for the Tippah Career and Technology Center, and the operations of the center are included in its financial statements.

The following Statement of Revenues, Expenditures and Changes in Fund Balance is presented to detail the financial activity of the Tippah Career and Technology Center.

**SOUTH TIPPAH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE 10 - VOCATIONAL SCHOOL CENTER (Continued)

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

Revenues	
Local sources	
Taxes	\$ 223,817
Interest	4,858
Other local sources	14,893
Total Local sources	<u>243,568</u>
State sources	<u>367,342</u>
Federal sources	<u>650</u>
Total Revenues	<u>611,560</u>
Expenditures	
Salaries	380,878
Employee benefits	113,899
Purchased professional and technical services	7,448
Purchased property services	160,177
Other purchased services	38,170
Supplies	40,947
Property	40,119
Total Expenditures	<u>781,638</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(170,078)</u>
Other Financing Sources (Uses):	
Proceeds of loan	133,900
Insurance loss recoveries	9,987
Sale of transportation equipment	502
Sale of other property	501
Other financing sources	72,100
Total Other Financing Sources (Uses)	<u>216,990</u>
Net Change in Fund Balance	46,912
Fund Balance:	
July 1, 2007	<u>63,999</u>
June 30, 2008	<u>\$ 110,911</u>

REQUIRED SUPPLEMENTARY INFORMATION

**SOUTH TIPPAH SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008**

Schedule 1

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
REVENUES:					
Local sources	\$ 3,173,819	\$ 3,145,882	\$ 3,114,375	\$ (27,937)	\$ (31,507)
State sources	13,953,673	13,819,538	13,819,538	(134,135)	-
Federal sources	66,000	116,326	116,326	50,326	-
Total Revenues	17,193,492	17,081,746	17,050,239	(111,746)	(31,507)
EXPENDITURES:					
Instruction	10,949,775	10,638,382	10,638,382	311,393	-
Support services	5,402,600	5,258,326	5,258,326	144,274	-
Non-instructional services	242,500	271,898	271,898	(29,398)	-
Facilities acquisition and construction	4,696,000	2,155,341	2,155,341	2,540,659	-
Total Expenditures	21,290,875	18,323,947	18,323,947	2,966,928	-
Excess (Deficiency) of Revenues over Expenditures	(4,097,383)	(1,242,201)	(1,273,708)	2,855,182	(31,507)
OTHER FINANCING SOURCES (USES):					
Proceeds of loans	-	247,468	247,468	247,468	-
Sale of transportation equipment	-	1,362	1,362	1,362	-
Sale of other property	-	-	31,507	-	31,507
Operating transfers in	276,397	93,727	4,542	(182,670)	(89,185)
Operating transfers out	(404,728)	(206,112)	(116,927)	198,616	89,185
Total Other Financing Sources (Uses)	(128,331)	136,445	167,952	264,776	31,507
NET CHANGE IN FUND BALANCE	(4,225,714)	(1,105,756)	(1,105,756)	3,119,958	-
FUND BALANCE:					
July 1, 2007	7,436,782	7,436,782	7,436,782	-	-
June 30, 2008	\$ 3,211,068	\$ 6,331,026	\$ 6,331,026	\$ 3,119,958	\$ -

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

**SOUTH TIPPAAH SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE 1 - BUDGETARY COMPARISON SCHEDULES

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

SUPPLEMENTAL INFORMATION

**SOUTH TIPPAH SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

Federal Grantor/ Pass-through Grantor Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Child Nutrition Cluster:		
School breakfast program	10.553	\$ 211,884
National school lunch program	10.555	741,338
Summer food service program for children	10.559	9,442
Total Child Nutrition Cluster		962,664
Total U.S. Department of Agriculture		962,664
<u>U.S. Department of Labor</u>		
Passed-through Mississippi Development Authority:		
WIA cluster:		
WIA youth activities	17.259	60,448
Total U.S. Department of Labor		60,448
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the Universal Service Fund	32.XXX	29,486
Total Federal Communications Commission		29,486
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	623,105
Career and technical education - basic grants to states	84.048	39,748
Safe and drug-free schools and communities - state grants	84.186	15,445
Twenty-first century community learning centers	84.287	95,690
State grants for innovative programs	84.298	4,231
Education technology state grants	84.318	6,448
Rural education	84.358	56,411
English language acquisition grants	84.365	55,047
Improving teacher quality - state grants	84.367	155,694
Grants for state assessments and related activities	84.369	1,450
Total		1,053,269
Special education cluster:		
Special education - grants to states	84.027	503,147
Special education - preschool grants	84.173	25,572
Total		528,719
Total passed-through Mississippi Department of Education		1,581,988
Total U.S. Department of Education		1,581,988
Total for All Federal Awards		\$ 2,634,586

**SOUTH TIPPAH SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2008**

NOTES TO SCHEDULE

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

**SOUTH TIPPAH 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 Other Student Instructional Expenditures</u>	<u>General Administration</u>	<u>School Administration</u>	<u>Other</u>
Salaries and fringe benefits	\$ 15,841,420	\$ 12,683,348	\$ 521,177	\$ 1,041,854	\$ 1,595,041
Other	<u>6,878,853</u>	<u>1,714,284</u>	<u>197,968</u>	<u>55,612</u>	<u>4,910,989</u>
Total	\$ <u>22,720,273</u>	\$ <u>14,397,632</u>	\$ <u>719,145</u>	\$ <u>1,097,466</u>	\$ <u>6,506,030</u>
Total number of students*	<u>2,707</u>				
Cost per student	<u>\$ 8,393</u>	<u>\$ 5,319</u>	<u>\$ 266</u>	<u>\$ 405</u>	<u>\$ 2,403</u>

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

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

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

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

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

*Includes the number of students reported on the ADA report submission for month 9, which is the final submission for the fiscal year.

OTHER SUPPLEMENTAL INFORMATION

SOUTH TIPPAH SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GENERAL FUND
LAST FOUR YEARS

"UNAUDITED"

	<u>2008</u>	<u>2007*</u>	<u>2006*</u>	<u>2005*</u>
REVENUES:				
Local sources	\$ 3,114,375	\$ 3,065,930	\$ 2,801,076	\$ 2,633,232
State sources	13,819,538	13,066,889	12,471,817	11,257,971
Federal sources	116,326	155,182	155,176	131,913
Total Revenues	<u>17,050,239</u>	<u>16,288,001</u>	<u>15,428,069</u>	<u>14,023,116</u>
EXPENDITURES:				
Instruction	10,638,382	9,651,605	9,325,551	8,710,267
Support services	5,258,326	4,870,072	4,529,107	4,035,967
Non-instructional services	271,898	262,524	296,095	278,644
Facilities acquisition and construction	2,155,341	1,433,982	14,487	671,956
Total Expenditures	<u>18,323,947</u>	<u>16,218,183</u>	<u>14,165,240</u>	<u>13,696,834</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,273,708)</u>	<u>69,818</u>	<u>1,262,829</u>	<u>326,282</u>
OTHER FINANCING SOURCES (USES):				
Proceeds of loans	247,468	-	-	-
Insurance loss recoveries	-	13,333	1,920	-
Sale of transportation equipment	1,362	-	3,449	900
Sale of other property	31,507	-	-	-
Operating transfers in	4,542	3,679	1,832	2,318
Operating transfers out	(116,927)	(190,085)	(180,633)	(5,990)
Total Other Financing Sources (Uses)	<u>167,952</u>	<u>(173,073)</u>	<u>(173,432)</u>	<u>(2,772)</u>
NET CHANGE IN FUND BALANCES	<u>(1,105,756)</u>	<u>(103,255)</u>	<u>1,089,397</u>	<u>323,510</u>
FUND BALANCES:				
July 1	<u>7,436,782</u>	<u>7,540,037</u>	<u>6,450,640</u>	<u>6,127,130</u>
June 30	<u>\$ 6,331,026</u>	<u>\$ 7,436,782</u>	<u>\$ 7,540,037</u>	<u>\$ 6,450,640</u>

SOURCE-PRIOR YEAR AUDIT REPORTS

SOUTH TIPPAH SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUNDS
LAST FOUR YEARS

"UNAUDITED"

	<u>2008</u>	<u>2007*</u>	<u>2006*</u>	<u>2005*</u>
REVENUES:				
Local sources	\$ 3,666,167	\$ 3,567,048	\$ 3,300,191	\$ 3,133,811
State sources	14,724,234	13,973,064	13,350,834	12,289,047
Federal sources	<u>2,707,579</u>	<u>2,948,063</u>	<u>2,908,160</u>	<u>2,437,307</u>
Total Revenues	<u>21,097,980</u>	<u>20,488,175</u>	<u>19,559,185</u>	<u>17,860,165</u>
EXPENDITURES:				
Instruction	12,757,646	11,937,450	11,557,381	10,581,034
Support services	6,247,667	6,065,972	5,505,039	5,073,439
Non-instructional services	1,417,971	1,326,204	1,300,172	1,275,967
Facilities acquisition and construction	<u>2,296,989</u>	<u>1,436,466</u>	<u>14,487</u>	<u>726,846</u>
Total Expenditures	<u>22,720,273</u>	<u>20,766,092</u>	<u>18,377,079</u>	<u>17,657,286</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,622,293)</u>	<u>(277,917)</u>	<u>1,182,106</u>	<u>202,879</u>
OTHER FINANCING SOURCES (USES):				
Proceeds of loans	381,368	-	-	-
Insurance loss recoveries	9,987	13,333	1,920	-
Sale of transportation equipment	1,864	-	3,449	900
Sale of other property	32,008	2,155	-	-
Operating transfers in	121,469	193,764	182,465	8,308
Other financing sources	72,100	-	-	-
Operating transfers out	<u>(121,469)</u>	<u>(193,764)</u>	<u>(182,465)</u>	<u>(8,308)</u>
Total Other Financing Sources	<u>497,327</u>	<u>15,488</u>	<u>5,369</u>	<u>900</u>
NET CHANGE IN FUND BALANCES	(1,124,966)	(262,429)	1,187,475	203,779
FUND BALANCES:				
July 1	7,976,256	8,231,915	7,042,022	6,834,216
Increase (Decrease) in Reserve for Inventory	<u>(510)</u>	<u>6,770</u>	<u>2,418</u>	<u>4,027</u>
June 30	<u>\$ 6,850,780</u>	<u>\$ 7,976,256</u>	<u>\$ 8,231,915</u>	<u>\$ 7,042,022</u>

SOURCE-PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

EATON, BABB & SMITH

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' 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 Tippah School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South Tippah School District as of and for the year ended June 30, 2008, which collectively comprise the school district's basic financial statements, and have issued our report thereon dated December 1, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

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

Eaton, Babb + Smith

Ripley, Mississippi
December 1, 2008

EATON, BABB & SMITH

C E R T I F I E D P U B L I C A C C O U N T A N T S

INDEPENDENT AUDITORS' 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 Tippah School District

Compliance

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

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

In our opinion, the South Tippah 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 Tippah 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 our audit, we considered the school district's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over compliance.

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

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

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

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

Eaton, Bell + Smith

Ripley, Mississippi
December 1, 2008

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH STATE LAWS AND REGULATIONS**

EATON, BABB & SMITH

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Superintendent and School Board
South Tippah School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South Tippah School District as of and for the year ended June 30, 2008, which collectively comprise South Tippah School District's basic financial statements and have issued our report thereon dated December 1, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Mississippi Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$65,812 of classroom supply funds carried over from previous years.

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

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

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

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

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

Eaton, Babb + Smith

Ripley, Mississippi
December 1, 2008

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**SOUTH TIPPAH SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

Section 1: Summary of Auditors' Results

FINANCIAL STATEMENTS:

- | | |
|--|----------------------|
| 1. Type of auditors' report issued on the financial statements: | <u>Unqualified</u> |
| 2. Material noncompliance relating to the financial statements? | <u>No</u> |
| 3. Internal control over financial reporting: | |
| a. Material weakness identified? | <u>No</u> |
| b. Significant deficiency identified that is not considered to be a material weakness? | <u>None Reported</u> |

FEDERAL AWARDS:

- | | |
|--|----------------------|
| 4. Type of auditors' report issued on compliance for major federal programs: | <u>Unqualified</u> |
| 5. Internal control over major federal programs: | |
| a. Material weakness identified? | <u>No</u> |
| b. Significant deficiency identified that is not considered to be a material weakness? | <u>None Reported</u> |
| 6. Any audit finding reported as required by Section ____,510(a) of Circular A-133? | <u>No</u> |
| 7. Federal programs identified as major programs: | |
| a. <u>Improving Teacher Quality - State Grants</u> | |
| CFDA# 84.367 | |
| b. <u>Special Education Cluster</u> | |
| CFDA# 84.027 | |
| CFDA# 84.173 | |
| 8. The dollar threshold used to distinguish between Type A and Type B programs: | <u>\$300,000</u> |
| 9. Auditee qualified as a low-risk auditee? | <u>Yes</u> |

**SOUTH TIPPAH SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2008**

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

The results of our tests disclosed no findings related to the financial statements that are required to be reported by *Government Auditing Standards*.

Section 3: Federal Award Findings and Questioned Costs

The results of our tests disclosed no findings and questioned costs related to the federal awards.