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STONE COUNTY SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2010

STONE COUNTY SCHOOL DISTRICT

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Mississippi Society
of Certified Public
Accountants

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

February 10, 2012

Superintendent and School Board
Stone County School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Stone County School District as of and for the year ended June 30, 2010, which collectively comprise the Stone County School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Stone County School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Stone County School District, as of June 30, 2010, 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 February 10, 2012, on our consideration of the Stone County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages (3) through (11) and the Budgetary Comparison Schedules and corresponding notes on pages (36) through (40) 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 supplemental 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 Stone County School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. In addition, the Schedule of Instructional, Administrative and Other Expenditures – Governmental Funds is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

McDaniel CPA Firm

MANAGEMENT'S DISCUSSION AND ANALYSIS

**STONE COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

The discussion and analysis of the Stone County School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2010. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the District's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

FINANCIAL HIGHLIGHTS

- Total net assets for 2010 decreased \$1,409,738, including a prior period adjustment of (\$70,177) which represents 11.42% decrease from fiscal year 2009. Total net assets for 2009 decreased \$135,552, which represents 1.09% decrease from fiscal year 2008.
- General revenues amounted to \$17,998,277 and \$18,524,206, or 78.23% and 79.16% of all revenues for fiscal years 2010 and 2009, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$5,007,286 or 21.77% of total revenues for 2010, and \$4,877,213 or 20.84% of total revenues for 2009.
- The District had \$24,345,124 and \$23,536,971 in expenses for fiscal years 2010 and 2009; only \$5,007,286 for 2010 and \$4,877,213 for 2009 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$17,998,277 for 2010 and \$18,524,206 for 2009 were not adequate to provide for these programs.
- Among major funds, the General Fund had \$16,610,994 in revenues and \$17,813,418 in expenditures for 2010 and \$17,636,639 in revenues and \$18,624,120 in expenditures in 2009. The General Fund's fund balance decreased by \$1,587,618 from 2009 to 2010 and decreased \$799,092 from 2008 to 2009.
- Capital assets, net of accumulated depreciation, decreased by \$263,093 for 2010 and increased \$169,160 for 2009. The decrease is due to the increase in accumulated depreciation.
- Long-term debt decreased by \$351,355 for 2010 and decreased by \$197,903 for 2009. This decrease was due to the principal payments on outstanding long-term debt. In addition, the liability for compensated absences decreased by \$1,682 for 2010 and increased by \$3,416 for 2009.

OVERVIEW OF THE 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 supplemental information in addition to the basic financial statements themselves.

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

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

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

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

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. The governmental fund's balance sheet is reconciled to the statement of net assets, and the governmental fund's statement of revenues, expenditures, and changes in fund balances is reconciled to the statement of activities 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's balance sheet and in the governmental fund's 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.

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 immediately following the basic 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 special revenue major fund.

Additionally, a schedule of expenditures of federal awards as required by OMB Circular A-133 and a schedule of instructional, administrative and other expenditures for governmental funds can be found in this report.

Also, included in the other supplemental information section are 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. This information 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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$10,935,256 as of June 30, 2010.

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

Table 1 presents a summary of the District's net assets at June 30, 2010 and June 30, 2009.

Table 1
Condensed Statement of Net Assets

	Net Assets		Percentage Change
	June 30, 2010	June 30, 2009	
Current Assets	4,957,450	6,483,598	-23.54%
Restricted Assets	349,513	321,014	8.88%
Capital Assets, Net	7,940,499	8,203,592	-3.21%
Total Assets	13,247,462	15,008,204	-11.73%
Current Liabilities	60,065	58,032	3.50%
Long-term debt outstanding	2,252,141	2,605,178	-13.55%
Total Liabilities	2,312,206	2,663,210	-13.18%
Net Assets:			
Invested in capital assets, net of related debt	6,050,675	5,962,412	1.48%
Restricted	1,887,420	1,747,082	8.03%
Unrestricted	2,997,161	4,635,500	-35.34%
Total Net Assets	10,935,256	12,344,994	-11.42%

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

Decrease in net capital assets in the amount of \$263,093

The principal retirement of \$ 351,355 of long-term debt.

- **Changes in net assets.** The District's total revenues for the fiscal years ended June 30, 2010 and June 30, 2009 were \$ 23,005,563 and \$23,401,419, respectively. The total cost of all programs and services was \$24,345,124 for 2010 and \$23,536,971 for 2009. Table 2 presents a summary of the changes in net assets for the fiscal years ended June 30, 2010 and June 30, 2009.

Table 2 – Changes in Net Assets

	Year Ended June 30, 2010	Year Ended June 30, 2009	Percentage Change
Revenues:			
Program Revenues:			
Charges for Services	\$ 855,392	\$ 1,504,541	-43.15%
Operating grants and contributions	4,151,894	3,372,672	23.10%
General revenues:			
Property taxes	4,757,774	4,456,741	6.75%
Grants and contributions not restricted	12,747,632	13,812,219	-7.71%
Other	492,871	255,246	93.10%
Total revenues	<u>23,005,563</u>	<u>23,401,419</u>	<u>-1.69%</u>
Expenses:			
Instruction	13,821,754	13,368,186	3.39%
Support Services	8,711,065	8,305,231	4.89%
Non-instructional	1,808,427	1,640,340	-1.95%
Sixteenth Section	119,350	132,218	-9.73%
Interest and other expense on long-term liabilities	84,528	90,996	-7.11%
Total expenses	<u>24,345,124</u>	<u>23,536,971</u>	<u>3.43%</u>
Increase (Decrease) in net assets	<u>(1,339,561)</u>	<u>(135,552)</u>	<u>-888.23%</u>
Net Assets, July 1	<u>12,344,994</u>	<u>12,480,546</u>	<u>-1.09%</u>
Prior period adjustment	<u>(70,177)</u>	<u>-</u>	
Net Assets, July 1 - Restated	<u>12,274,817</u>	<u>12,480,546</u>	<u>-1.65%</u>
Net Assets, June 30	<u>\$ 10,935,256</u>	<u>\$ 12,344,994</u>	<u>-11.42%</u>

Governmental activities. The following table presents the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section, and interest on long-term debt. The table also shows each functional activity's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost presents 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
	2010	2009	
Instruction	\$ 13,821,754	\$ 13,368,186	3.39%
Support Services	8,711,065	8,305,231	4.89%
Non-instructional	1,608,427	1,640,340	-1.95%
Sixteenth section	119,350	132,218	-9.73%
Interest and other expenses on long-term liabilities	84,528	90,996	-7.11%
Total expenses	\$ 24,345,124	\$ 23,536,971	3.43%

	Net (Expense) Revenue		Percentage Change
	2010	2009	
Instruction	\$ (12,052,075)	\$ (11,631,985)	3.61%
Support Services	(7,067,599)	(7,239,361)	-2.37%
Non-instructional	(14,286)	(159,815)	-91.06%
Sixteenth section	(119,350)	462,399	-125.81%
Interest and other expenses on long-term liabilities	(84,528)	(90,996)	-7.11%
Total net (expense) revenue	\$ (19,337,838)	\$ (18,659,758)	3.63%

- Net cost of governmental activities (\$19,337,838 and \$18,659,758) was financed by general revenue, which is made up of primarily property taxes of (\$4,757,774 for 2010 and \$4,456,741 for 2009) and state and federal revenues of (\$12,747,632 for 2010 and \$13,812,219 for 2009). In addition there was \$151,692 and \$79,839 in Sixteenth Section sources for 2010 and 2009, respectively.
- Investment earnings amounted to \$ 238,221 for 2010 and \$127,255 for 2009.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

Governmental funds. The focus of the District's governmental funds is to provide information on current inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve

as a useful measure of the District's net resources available for spending at the end of the fiscal year.

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$5,102,196 a decrease of \$1,441,856, which includes the decrease in inventory of \$8,341. \$4,351,622 or 85.2 % of the fund balance represents unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$750,574 or 14.8 % is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was \$1,587,618, a result of reductions in state cuts in MAEP revenues. The fund balance of Other Governmental Funds showed a increase of \$ 36,464, which includes a decrease in reserve for inventory of \$ 8,341. The other increase (decrease) in the fund balances for the other major funds were as follows:

<u>Major Fund</u>	<u>Increase\ (Decrease)</u>
Title I basic fund	no increase or decrease
Special education fund	no increase or decrease
Sixteenth section interest fund	\$ 109,298

BUDGETARY HIGHLIGHTS

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

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2010, the District's total capital assets were \$15,442,681, including land, school buildings, building improvements, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$199,477 from 2009. Total accumulated depreciation as of June 30, 2010 was \$7,502,182 and total depreciation expense for the year was \$417,993, resulting in total net capital assets of \$7,940,499.

Table 4
Capital Assets, Net of Accumulated Depreciation

	Capital Assets, Net of Depreciation		Percentage Change
	June 30, 2010	June 30, 2009	
Land	\$ 353,110	353,110	0.0%
Buildings	6,113,095	6,278,135	-2.6%
Improvements other than buildings	532,722	567,980	-6.2%
Mobile equipment	855,491	968,745	-11.7%
Furniture and equipment	82,491	32,032	157.5%
Leased property under capital leases	3,590	3,590	0.0%
Total	\$ 7,940,499	8,203,592	-3.2%

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

Debt Administration. At June 30, 2010, the District had \$2,252,141 in outstanding long-term debt, of which \$376,672 is due within one year. In addition, the liability for compensated absences decreased from the prior year.

The District maintains an AAA bond rating.

Table 5
Outstanding Long-Term Debt

	Outstanding Long-term Debt		Percentage Change
	June 30, 2010	June 30, 2009	
General obligation bonds payable	1,835,000	2,125,000	-13.6%
Obligations under energy efficiency lease	-	7,553	-100.0%
Qualified zone academy bonds payable	250,000	250,000	0.0%
Obligations under capital leases	54,824	108,626	-49.5%
Compensated absences payable	112,317	113,999	-1.5%
Total	2,252,141	2,605,178	-13.6%

Additional information on the District's long-term debt can found in Note 6 included in this report.

CURRENT ISSUES

The Stone County 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's system of financial planning, budgeting and internal financial controls is well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

The District actively pursues grant funding to supplement the local, state and federal revenue.

Enrollment for the 2009 -2010 year increased by .009 % to 2,682 students.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Stone County School District, 214 Critz Street, Wiggins, MS 39777.

BASIC FINANCIAL STATEMENTS

STONE COUNTY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2010

Exhibit A

	Governmental Activities
Assets:	
Cash and cash equivalents	\$ 2,583,273
Investments	1,675,000
Due from other governments	527,423
Deferred Charges	144,702
Inventories and prepaid items	27,052
Restricted assets	349,513
Capital assets, non-depreciable:	
Land	353,110
Capital assets, net of accumulated depreciation:	
Buildings	6,113,095
Improvements other than buildings	532,722
Mobile equipment	855,491
Furniture and equipment	82,491
Leased property under capital leases	3,590
Total Assets	13,247,462
Liabilities:	
Accounts payable and accrued liabilities	60,065
Long-term liabilities, due within one year:	
Capital related liabilities	359,824
Non-capital related liabilities	16,848
Long-term liabilities, due beyond one year:	
Capital related liabilities	1,530,000
Non-capital related liabilities	345,469
Total Liabilities	2,312,206
Net Assets:	
Invested in capital assets, net of related debt	6,050,675
Restricted net assets:	
Expendable:	
School-based activities	1,163,898
Debt service	398,961
Forestry Improvements	135,605
Unemployment benefits	66,711
Non-expendable:	
Sixteenth section	122,245
Unrestricted	2,997,161
Total Net Assets	10,935,256

STONE COUNTY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2010

Exhibit B

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction	\$ 13,821,754	391,719	1,377,960		\$ (12,052,075)
Support services	8,711,065		1,843,468		(7,067,599)
Non-Instructional	1,608,427	463,873	1,130,468		(14,286)
Sixteenth section	119,350				(119,350)
Interest on long-term liabilities	84,528				(84,528)
Total governmental activities	\$ 24,345,124	855,392	4,151,894	-	(19,337,838)
General Revenues:					
Taxes:					
General purpose levies					4,318,937
Debt purpose levies					440,837
Unrestricted grants and contributions:					
State					11,805,864
Federal					1,141,768
Unrestricted investment earnings					238,221
Sixteenth section sources					151,592
Other					102,958
Total General Revenues					17,999,277
Change in Net Assets					
(1,339,561)					
Net Assets - Beginning, as originally reported					
12,344,994					
Prior Period Adjustments					
(70,177)					
Net Assets - Beginning, as restated					
12,274,817					
Net Assets - Ending					
\$ 10,935,256					

STONE COUNTY SCHOOL DISTRICT
Balance Sheet - Governmental Funds
June 30, 2010

Exhibit C

	Major Funds					Total Governmental Funds
	General Fund	Title I Fund	Special Education Fund	Sixteenth Section Interest Fund	Other Governmental Funds	
ASSETS						
Cash and cash equivalents	\$ 2,766,794			946,026	549,788	\$ 4,262,608
Cash with fiscal agents					238	238
Investments					344,940	344,940
Due from other governments	213,020	109,125	107,244	552	97,482	527,423
Due from other funds	268,614				7,768	276,382
Inventories and prepaid items	4,475				22,577	27,052
Total Assets	3,252,903	109,125	107,244	946,578	1,022,793	5,438,643
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities	33,652	172			26,241	60,065
Due to other funds		108,953	107,244		60,185	276,382
Total Liabilities	33,652	109,125	107,244	-	86,426	336,447
Fund Balances:						
Reserved for:					22,577	22,577
Inventory					4,475	4,475
Prepaid items	4,475				388,961	398,961
Debt service					66,711	66,711
Unemployment benefits					135,605	135,605
Forestry improvement purposes					122,245	122,245
Permanent fund purposes						
Unreserved:						
Undesignated, reported in:						
General Fund	3,214,776			946,578	190,268	3,214,776
Special Revenue Funds						1,136,846
Total Fund Balances	3,219,251	-	-	946,578	936,367	5,102,196
Total Liabilities and Fund Balances	\$ 3,252,903	109,125	107,244	946,578	1,022,793	\$ 5,438,643

STONE COUNTY SCHOOL DISTRICT

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2010

Exhibit C-1

	<u>Amount</u>
Total fund balance - governmental funds	\$ 5,102,196
Amount reported for governmental activities in the statement of net assets are different because:	
1. Capital assets are used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$ 7,502,182	7,940,499
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(2,252,141)
3. Governmental funds report the effect of bond issuance costs when the debt is first issued, whereas, these amounts are deferred and amortized in the Statement of Net Assets.	144,702
Total net assets - governmental activities	<u>\$ 10,935,256</u>

STONE COUNTY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2010

Exhibit D

	Major Funds				Other Governmental Funds	Total Governmental Funds
	General Fund	Title I Fund	Special Education Fund	Sixteenth Section Interest Fund		
Revenues:						
Local sources	\$ 4,840,140				988,839	\$ 5,938,979
State sources	11,507,916				599,170	12,107,086
Federal sources	182,938	711,744	647,033		3,228,033	4,748,748
Sixteenth section sources				198,436	10,067	208,503
Total Revenues	16,810,994	711,744	647,033	198,436	4,835,109	23,004,318
Expenditures:						
Instruction	11,094,934	279,893	398,469		2,081,646	13,855,062
Support services	8,560,093	350,349	234,691		1,276,711	8,523,844
Noninstructional services	1,871	68,828			1,430,227	1,498,724
Sixteenth section				18,353	102,997	119,350
Debt service:						
Principal	50,895				300,360	351,355
Interest	5,725				78,803	84,528
Other					2,200	2,200
Total Expenditures	17,813,418	697,168	633,160	18,353	5,274,944	24,435,093
Excess (deficiency) of revenues over expenditures	(1,202,424)	14,576	13,853	182,083	(438,835)	(1,430,747)
Other Financing Sources (Uses):						
Sale of other property	632					632
Payments held by QZAB debt escrow agent					18,000	18,000
Operating transfers in	137,684			7,939	482,471	632,894
Operating transfers out	(500,410)	(14,576)	(13,853)	(80,724)	(23,431)	(632,994)
Payments to QZAB debt escrow agent	(18,000)				(3,400)	(18,000)
Other financing uses					(3,400)	(3,400)
Total Other Financing Sources (Uses)	(385,194)	(14,576)	(13,853)	(72,786)	483,640	(2,786)
Net change in fund balances	(1,587,618)	-	-	109,298	44,805	(1,433,516)
Fund Balances:						
July 1, 2009	4,806,869	-	-	837,280	899,903	6,544,052
Increase/(Decrease) in reserve for inventory					(8,341)	(8,341)
June 30, 2010	\$ 3,219,251	-	-	946,578	\$ 930,567	\$ 5,102,198

STONE COUNTY SCHOOL DISTRICT
Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2010

Exhibit D-1

	Amount
Net change in fund balances - governmental funds	\$ (1,433,515)
Amounts reported for governmental activities in the statement of activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchased amounted to \$ 225,336, and the depreciation expense amounted to \$ 417,893.	(182,657)
2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment has no effect on net assets.	351,355
3. Governmental funds report the effect of issuance costs and premiums when debt is first issued, Amortization of deferred charges - bond issuance costs	(57,826)
4. Gains and losses on the sale or disposals of assets not reported in the governmental funds, but are reported in the statement of activities.	(258)
5. Increase (decrease) in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are (increased) decreased in the statement of activities.	(8,341)
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	1,682
Change in net assets of governmental activities	<u>\$ (1,338,581)</u>

STONE COUNTY SCHOOL DISTRICT
Statement of Fiduciary Assets and Liabilities
June 30, 2010

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 938,959
<i>Total assets</i>	<u>938,959</u>
 Liabilities	
Accounts payable and accrued liabilities	919,984
Due to student clubs	18,975
<i>Total liabilities</i>	<u>\$ 938,959</u>

NOTES TO FINANCIAL STATEMENTS

STONE COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2010

(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, Stone County 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 non-fiduciary activities of the District. For the most part, the effect of inter-fund 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 non-fiduciary 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.

STONE COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2010

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are 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 and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other 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 fund is used to account for financial resources received and spent under the federal Title I program.

Special education fund – This fund is used to account for financial resources received and spent under the federal special education program.

Sixteenth section interest fund – This fund is used to account for financial resources received and spent related to the district's sixteenth section land.

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 District's fiduciary funds include the following:

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

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

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUND TYPES

STONE COUNTY SC

Notes to Financial Statements For the Year Ended June 30, 2010

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

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

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

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

FIDUCIARY FUNDS

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

C. Measurement Focus and Basis of Accounting.

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

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

STONE COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2010

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 inter-fund activity has been eliminated from the government-wide statements.

Revenues from the Mississippi 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.

D. Account Classifications.

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

E. Encumbrances.

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

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

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.

STONE COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2010

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 inter-fund loans) or "advances to/from other funds" (i.e. the non-current portion of inter-fund 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.

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

5. Restricted Assets.

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

STONE COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2010

6. Capital Assets.

Capital assets include land, improvements to land, easements, water rights, timber rights, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Capital assets are reported in the applicable governmental 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 table below 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 the capitalization thresholds:

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

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

7. Compensated Absences.

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).

STONE COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2010

The liability for these compensated absences is recorded as long-term liability 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 liability for compensated absences from expendable available financial resources only if the payable has matured, for example, an employee retires.

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

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

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

9. Fund equity.

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

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

Fund reserves are portions of fund equity that are legally segregated for a specific future use or are not available for current operations. Following are descriptions 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 of prepaid items - An account that represents a portion of the fund balance which indicates that prepaid items do not represent available spendable resources even though they are a component of net current assets.

Reserved for debt service - An account that represents that portion of fund balance in the Debt Service Fund which is 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.

STONE COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2010

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

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

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

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

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

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

Investments. Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to invest excess 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, not to exceed fifty percent of all monies invested with maturities of thirty days or longer; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entity 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, not to exceed twenty percent of invested funds. 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. Investment income of less than \$100 can be credited to the General Fund.

Cash and Cash Equivalents.

STONE COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2010

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds \$ 4,262,608 and \$ 938,959, respectively. The bank balance was \$ 5,701,110.

Custodial Credit Risk - Deposits

Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages the risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2010, none of the district's bank balance of \$ 5,701,110 was exposed to custodial credit risk.

Cash with Fiscal Agents

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$ 238.

Investments.

As of June 30, 2010, the district had the following investments.

Investment Type	Maturities (In years)	Fair Value	Rating
Federal Home Loan Mortgage Corporation	less than 1 year	\$ 344,940	not rated
Total Investments		<u>\$ 344,940</u>	

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

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

Custodial Credit Risk – Investments. Custodial credit risk is defined as the risk that, in the event of failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk.

Concentrations of Credit Risk. Disclosures of investments by amount and 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, 2009, the district had the following investments:

STONE COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2010

<u>Issuer</u>	<u>Fair Value</u>	<u>% of Total Investments</u>
Federal Home Loan Mortgage Corporation	<u>\$ 344,940</u>	100%

(3) Inter-fund Receivables, Payables and Transfers.

The following is a summary of inter-fund transactions and balances:

A. Due from / To Other Funds.

	<u>Due From</u>	<u>Due To</u>
Governmental Funds:		
General fund	\$ 268,614	
Title I fund		108,953
Special education fund		107,244
Other governmental funds	<u>7,768</u>	<u>60,185</u>
Total Funds	<u>\$ 276,382</u>	<u>276,382</u>

The purpose of interfund loans was to account for federal funds that were not received until after the year ending 6/30/2010.

B. Inter-fund Transfers.

	<u>In</u>	<u>Out</u>
Major Governmental Funds:		
General fund	\$ 132,584	500,410
Title I fund		14,576
Special education fund		13,853
Sixteenth section interest fund	<u>7,939</u>	<u>80,724</u>
Other governmental funds	<u>492,471</u>	<u>23,431</u>
Total Funds	<u>\$ 632,994</u>	<u>632,994</u>

Transfers are made monthly from the General Fund to other funds for operations as federal and state funding for those funds is not sufficient to sustain those funds.

(4) Restricted Assets.

The restricted assets represent the cash balance totaling \$122,245, 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.

STONE COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2010

In addition, the restricted assets represent the investment balance, totaling \$227,268, of the QZAB Bond Retirement Fund.

(5) Capital Assets.

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

	Balance 7/1/2009	Additions	Retirements	Completed Construction	Adjustments	Balance 6/30/2010
<u>Non-depreciable capital</u>						
Land	\$ 353,110					\$ 353,110
Total non-depreciable	353,110	-	-	-	-	353,110
<u>Depreciable capital assets</u>						
Buildings	10,481,557					10,481,557
Improvements other than buildings	881,454					881,454
Mobile equipment	2,857,897	182,102				3,039,999
Furniture and equipment	310,211	43,234	(25,859)			327,586
Leased property under capital leases	358,975					358,975
Total depreciable capital	14,890,094	225,336	(25,859)	-	-	15,089,571
<u>Less accumulated:</u>						
Buildings	4,203,422	165,040				4,368,462
Improvements other than buildings	313,474	35,258				348,732
Mobile equipment	1,889,152	195,555			99,801	2,184,508
Furniture and equipment	278,179	22,140	(25,600)		(29,624)	245,095
Leased property under capital leases	355,385					355,385
Total accumulated depreciation	7,039,612	417,993	(25,600)	-	70,177	7,502,182
Total depreciable capital assets, net	7,850,482	(192,657)	(259)	-	(70,177)	7,587,389
Governmental activities capital assets, net	\$ 8,203,592	(192,657)	(259)	-	(70,177)	\$ 7,940,499

STONE COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2010

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$ 15,073
Support Services	362,199
Non-Instructional	40,721
Total depreciation expense	<u>\$ 417,993</u>

(6) Long-term Liabilities.

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

	Balance 7/1/2009	Additions	Reductions	Balance 6/30/2010	Amounts due within one year
A. General obligation bonds payable	2,125,000	-	(290,000)	1,835,000	305,000
B. Obligations under energy efficiency lease	7,553	-	(7,553)	-	-
C. Qualified zone academy bonds payable	250,000	-	-	250,000	-
D. Obligations under capital leases	108,626	-	(53,802)	54,824	54,824
E. Compensated absences payable	113,999	-	(1,682)	112,317	16,848
Total	<u>\$ 2,605,178</u>	<u>-</u>	<u>(353,037)</u>	<u>2,252,141</u>	<u>376,672</u>

A. General obligation bonds payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General obligation refunding bonds, series 2002	1.6 - 4.0%	10/1/2002	6/15/2016	3,365,000	1,835,000
Total				<u>\$ 3,365,000</u>	<u>\$ 1,835,000</u>

STONE COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2010

Details of the district's June 30, 2010 general obligation bonded indebtedness are as follows:

General Obligation Refunding Bonds, Series 2002 issue of 10/1/2002:

Year Ending June 30	Principal	Interest	Total
2011	305,000	68,942	373,942
2012	315,000	58,268	373,268
2013	325,000	46,928	371,928
2014	340,000	39,200	379,200
2015	350,000	21,300	371,300
2016	200,000	3,890	203,890
Total	<u>\$ 1,835,000</u>	<u>\$ 238,528</u>	<u>\$ 2,073,528</u>

This debt will be retired from the 95-96 Bond Issue Retirement 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 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, 2010, the amount of outstanding bonded indebtedness was equal to 2.10% of property assessments as of October 1, 2009.

B. Obligations under energy efficiency lease.

Debt was retired during the current year.

C. Qualified zone academy bonds payable.

As more fully explained in Note 10, debt has been issued by the school district that qualifies as Qualified Zone Academy bonds. Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Qualified Zone Academy Bonds	0.00%	6/1/2001	5/30/2011	250,000	250,000
Total				<u>\$ 250,000</u>	<u>\$ 250,000</u>

STONE COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2010

D. Obligations under capital leases.

The school district has entered into a lease agreement as lessee for financing the acquisition of apple computer equipment at a cost of \$ 164,492. This lease qualifies as a capital lease for accounting purposes.

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

Year Ending June 30	Principal	Interest	Total
2011	54,824	1,042	55,866
Total	<u>\$ 54,824</u>	<u>\$ 1,042</u>	<u>\$ 55,866</u>

E. Compensated absences payable.

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

(6) Other Commitments.

Operating leases:

The school district has an operating lease for a postage meter. Lease expenditures for the year ended June 30, 2010, amounted to \$ 2,964.

(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, Mississippi 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy. PERS members are required to contribute 7.25 % of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate for fiscal year ended June 30, 2010 was 12.00% 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

STONE COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2010

ending June 30, 2010, 2009, and 2008 were \$ 1,608,255, \$ 1,542,323 and \$ 1,478,324, 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 June 30	Amount
2011	33,997
2012	1,193
2013	1,129
2014	1,129
2015	895
2016-2020	3,328
2021-2025	2,350
2026-2029	470
Total	<u>\$ 44,491</u>

(9) Prior period adjustments.

A summary of significant fund equity adjustments is as follows:

Exhibit B – Statement of Activities

<u>Explanation:</u>	<u>Amount</u>
1. Adjustments was related to accumulated depreciation	<u>(70,177)</u>

(10) Contingencies.

Federal Grants. – The school district has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowances resulting from the grantor audit may become a liability of the school district.

STONE COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2010

Litigation.

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

(11) Risk Management

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

Participation in Public Entity Risk Pool.

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 72 school districts and covers risks of loss arising from injuries to 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 the 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.

(12) 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 at nominal interest rates for costs incurred by certain public schools in connection with the establishment of special academic programs from kindergarten through secondary school, partnership with the business community. The school district has entered into such an arrangement date June 1, 2001, partnering with Desoto Land and Timber, the Bank of Wiggins and the Foundation for Better Education, with the present value of their contributions being, 8,232.86, 26,881.79 and 5,000, respectively.

This agreement establishes a method of a 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 May 15. The amount on deposit at June 30, 2010 was \$227,268. The amount accumulated in the sinking fund at the end of the ten-year period will be sufficient to retire debt.

STONE COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2010

The following schedule reports the yearly deposits to be made to the sinking fund by the school district.

<u>Year Ending June 30</u>	<u>Amount</u>
2011	17,000
Total	<u>\$ 17,000</u>

REQUIRED SUPPLEMENTARY INFORMATION

STONE COUNTY SCHOOL DISTRICT
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2010

Schedule 1

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	4,901,000	4,940,140	4,940,140	39,140	-
State sources	11,420,000	11,507,916	11,507,916	87,916	-
Federal sources	150,000	162,938	162,938	12,938	-
Total Revenues	16,471,000	16,610,994	16,610,994	139,994	-
Expenditures:					
Instruction	11,100,000	11,094,934	11,094,934	5,066	-
Support services	6,700,000	6,660,093	6,660,093	39,907	-
Noninstructional services	3,000	1,671	1,671	1,329	-
Debt service:					
Principal	52,000	50,995	50,995	1,005	-
Interest	7,000	5,725	5,725	1,275	-
Total Expenditures	17,862,000	17,813,418	17,813,418	48,582	-
Excess (deficiency) of revenues over expenditures	(1,391,000)	(1,202,424)	(1,202,424)	188,576	-
Other Financing Sources (Uses)					
Sale of other property	-	632	632	632	-
Operating transfers in	133,000	132,584	132,584	(416)	-
Operating transfers out	(501,000)	(500,410)	(500,410)	590	-
Payments to QZAB debt escrow agent	(18,000)	(18,000)	(18,000)	-	-
Total Other Financing Sources (Uses)	(386,000)	(385,194)	(385,194)	806	-
Net change in fund balances	(1,777,000)	(1,587,618)	(1,587,618)	189,382	-
Fund Balances:					
July 1, 2009	4,806,869	4,806,869	4,806,869	-	-
June 30, 2010	3,029,869	3,219,251	3,219,251	189,382	-

STONE COUNTY SCHOOL DISTRICT
 Budgetary Comparison Schedule
 Title I Fund
 For the Year Ended June 30, 2010

Schedule 2

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	705,000	711,744	711,744	6,744	-
Total Revenues	705,000	711,744	711,744	6,744	-
Expenditures:					
Instruction	280,000	279,993	279,993	7	-
Support services	353,000	350,349	350,349	2,651	-
Noninstructional services	68,000	66,826	66,826	1,174	-
Total Expenditures	701,000	697,168	697,168	3,832	-
Excess (deficiency) of revenues over expenditures	4,000	14,576	14,576	10,576	-
Other Financing Sources (Uses)					
Operating transfers out	(4,000)	(14,576)	(14,576)	(10,576)	-
Total Other Financing Sources (Uses)	(4,000)	(14,576)	(14,576)	(10,576)	-
Net change in fund balances	-	-	-	-	-
Fund Balances:					
July 1, 2009	-	-	-	-	-
June 30, 2010	-	-	-	-	-

STONE COUNTY SCHOOL DISTRICT
 Budgetary Comparison Schedule
 Special education fund
 For the Year Ended June 30, 2010

Schedule 3

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	645,000	647,033	647,033	2,033	-
Total Revenues	645,000	647,033	647,033	2,033	-
Expenditures:					
Instruction	399,000	398,489	398,489	511	-
Support services	235,000	234,891	234,891	309	-
Total Expenditures	634,000	633,180	633,180	820	-
Excess (deficiency) of revenues over expenditures	11,000	13,853	13,853	2,853	-
Other Financing Sources (Uses)					
Operating transfers out	(11,000)	(13,853)	(13,853)	(2,853)	-
Total Other Financing Sources (Uses)	(11,000)	(13,853)	(13,853)	(2,853)	-
Net change in fund balances	-	-	-	-	-
Fund Balances:					
July 1, 2009	-	-	-	-	-
June 30, 2010	-	-	-	-	-

STONE COUNTY SCHOOL DISTRICT
 Budgetary Comparison Schedule
 16th Section Interest Fund
 For the Year Ended June 30, 2010

Schedule 4

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Sixteenth section sources	190,000	198,436	198,436	8,436	-
Total Revenues	<u>190,000</u>	<u>198,436</u>	<u>198,436</u>	<u>8,436</u>	<u>-</u>
Expenditures:					
Sixteenth section	18,000	16,353	16,353	1,647	-
Total Expenditures	<u>18,000</u>	<u>16,353</u>	<u>16,353</u>	<u>1,647</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	172,000	182,083	182,083	10,083	-
Other Financing Sources (Uses)					
Operating transfers in	7,000	7,939	7,939	939	-
Operating transfers out	(81,000)	(80,724)	(80,724)	276	-
Total Other Financing Sources (Uses)	<u>(74,000)</u>	<u>(72,785)</u>	<u>(72,785)</u>	<u>1,215</u>	<u>-</u>
Net change in fund balances	<u>98,000</u>	<u>109,298</u>	<u>109,298</u>	<u>11,298</u>	<u>-</u>
Fund Balances:					
July 1, 2009	837,280	837,280	837,280	-	-
June 30, 2010	<u>935,280</u>	<u>946,578</u>	<u>946,578</u>	<u>11,298</u>	<u>-</u>

STONE COUNTY SCHOOL DISTRICT

Notes to the Required Supplementary Information For the Year Ended June 30, 2010

Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(2) Budget Amendments and Revisions.

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

SUPPLEMENTAL INFORMATION

STONE COUNTY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

<u>Federal Grantor / Pass-through Grantor / Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>		
Passed through Mississippi Department of Education:		
Child Nutrition Cluster:		
School breakfast program	10.553	247,847
National school lunch program	10.555	925,949
Summer food service program for children	10.559	11,152
Total child nutrition cluster		<u>1,184,948</u>
Passed-through Stone County:		
Schools and roads cluster:		
Schools and roads - grants to states	10.665	105,895
Total schools and roads cluster		<u>105,895</u>
 <i>Total U.S. Department of Agriculture</i>		 <u>1,290,843</u>
<u>Federal Communications Commission</u>		
Administered through Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.XXX	54,381
<i>Total Federal Communications Commission</i>		<u>54,381</u>
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	711,744
ARRA - Title I grants to local educational agencies, recovery act	84.389	378,364
Total Title I Cluster		<u>1,090,108</u>
Career and technical education - basic grants to states	84.048	31,100
Safe and drug-free schools and communities - state grants	84.186	11,369
Twenty-first century community learning centers	84.287	154,550
Education technology state grants	84.316	5,981
Improving teacher quality - state grants	84.367	178,429
ARRA - Education state grants - recovery act	84.394	939,414
Total		<u>2,410,951</u>
Special education cluster:		
Special education - grants to states	84.027	647,033
Special education - preschool grants	84.173	32,169
ARRA - Special education - grants to states, recovery act	84.391	356,125
Total special education cluster		<u>1,035,327</u>
Total passed-through Mississippi Department of Education		<u>3,446,278</u>
<i>Total U.S. Department of Education</i>		<u>3,446,278</u>
 <u>U.S. Department of Health and Human Services</u>		
Passed-through the Mississippi Department of Education:		
Medical assistance program	93.778	15,215
<i>Total U.S. Department of Health and Human Services</i>		<u>15,215</u>
 Total for All Federal Awards		 <u>\$ 4,806,717</u>

NOTES TO SCHEDULE

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

Stone County School District
Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
For the Year Ended June 30, 2010

Expenditures	Total	Instruction and Other Student Instructional Expenditures			
		General Administration	School Administration	Other	
Salaries and fringe benefits	\$ 18,759,221	684,108	1,226,249	2,293,400	
Other	5,675,842	163,993	55,321	2,981,829	
Total	24,435,063	848,101	1,281,570	5,275,229	
Total number of students *	2,682				
Cost per student	\$ 9,111	316	478	1,967	

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

Instruction and Other Student Instructional Expenditures -

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

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

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

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

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

OTHER SUPPLEMENTAL INFORMATION



STONE COUNTY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

"UNAUDITED"

General Fund

Last Four Years

	2010	2009*	2008*	2007*
Revenues:				
Local sources	\$ 4,940,140	4,530,986	4,645,328	4,445,277
State sources	11,507,916	12,954,504	12,625,199	11,388,389
Federal sources	162,938	151,149	255,115	195,202
Total Revenues	<u>16,610,994</u>	<u>17,636,639</u>	<u>17,525,642</u>	<u>16,028,868</u>
Expenditures:				
Instruction	11,094,934	11,554,677	10,949,330	10,075,185
Support services	6,660,093	6,524,626	6,408,404	5,932,607
Noninstructional services	1,671			23,319
Sixteenth section			12,475	
Facilities acquisition and construction		543,285		299,304
Debt service:				
Principal	50,995			
Interest	5,725	1,532	2,064	3,690
Total Expenditures	<u>17,813,418</u>	<u>18,624,120</u>	<u>17,372,273</u>	<u>16,334,105</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(1,202,424)</u>	<u>(987,481)</u>	<u>153,369</u>	<u>(305,237)</u>
Other Financing Sources (Uses):				
Sale of other property	632			
Insurance loss recoveries				2,511
Operating transfers in	132,584	455,733	224,813	577,169
Other financing sources		2,025		
Operating transfers out	(500,410)	(251,369)	(365,910)	(436,529)
Payment to refunded bond escrow agent	(18,000)	(18,000)	(18,500)	(18,000)
Total Other Financing Sources (Uses)	<u>(385,194)</u>	<u>188,389</u>	<u>(159,597)</u>	<u>125,151</u>
Net Change in Fund Balances	<u>(1,587,618)</u>	<u>(799,092)</u>	<u>(6,228)</u>	<u>(180,086)</u>
Fund Balances:				
Fund balance, July 1	4,806,869	5,605,961	5,630,389	5,810,475
Prior period adjustments			(18,200)	
Fund balance, July 1, as restated	<u>4,806,869</u>	<u>5,605,961</u>	<u>5,612,189</u>	<u>5,810,475</u>
Fund balance, June 30	<u>\$ 3,219,251</u>	<u>4,806,869</u>	<u>5,605,961</u>	<u>5,630,389</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

STONE COUNTY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

"UNAUDITED"

All Governmental Funds

Last Four Years

	2010	2009*	2008*	2007*
Revenues:				
Local sources	\$ 5,938,979	5,514,692	5,583,070	5,520,089
Intermediate sources			9,000	
State sources	12,107,086	14,075,434	13,374,113	12,048,965
Federal sources	4,749,748	3,134,000	2,941,864	2,527,681
Sixteenth section sources	208,503	701,834	472,025	202,725
Total Revenues	<u>23,004,316</u>	<u>23,425,960</u>	<u>22,380,072</u>	<u>20,299,460</u>
Expenditures:				
Instruction	13,855,082	13,389,405	12,863,453	11,796,054
Support services	8,523,844	8,139,327	7,411,816	7,215,521
Noninstructional services	1,498,724	1,439,701	1,362,264	1,445,837
Sixteenth section	119,350	93,509	208,536	123,924
Facilities acquisition and construction		581,994		299,304
Debt service:				
Principal	351,355	362,394	301,529	289,370
Interest	84,528	89,295	98,077	108,535
Other	2,200	2,200	2,200	
Total Expenditures	<u>24,435,063</u>	<u>24,097,825</u>	<u>22,247,876</u>	<u>21,278,545</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(1,430,747)</u>	<u>(671,865)</u>	<u>132,197</u>	<u>(979,085)</u>
Other Financing Sources (Uses):				
Inception of capital leases		164,492		
Insurance loss recoveries				610,525
Sale of other property	632			
Operating transfers in	632,994	493,061	602,477	1,023,465
Other financing sources		2,525		
Operating transfers out	(632,994)	(493,061)	(602,477)	(1,023,465)
Payments held by QZAB debt escrow agent	18,000	18,000	18,500	18,000
Payments to QZAB debt escrow agent	(18,000)	(18,000)	(18,500)	(18,000)
Other financing uses	(3,400)			
Total Other Financing Sources (Uses)	<u>(2,768)</u>	<u>167,017</u>	<u>-</u>	<u>610,525</u>
Net Change in Fund Balances	<u>(1,433,515)</u>	<u>(504,848)</u>	<u>132,197</u>	<u>(368,560)</u>
Fund Balances:				
Fund balance, July 1	6,544,052	7,043,195	6,911,743	7,277,772
Prior period adjustments			9,587	
Fund balance, July 1, as restated	<u>6,544,052</u>	<u>7,043,195</u>	<u>6,921,330</u>	<u>7,277,772</u>
Increase (Decrease) in reserve for inventory	<u>(8,341)</u>	<u>5,705</u>	<u>(10,332)</u>	<u>2,531</u>
Fund balance, June 30	<u>\$ 5,102,196</u>	<u>6,544,052</u>	<u>7,043,195</u>	<u>6,911,743</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

McDaniel CPA Firm
Certified Public Accountant / Financial Consultant

Scotty McDaniel, CPA

MEMBER

Mississippi Society
of Certified Public
Accountants

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

February 10, 2012

Superintendent and School Board
Stone County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Stone County School District as of and for the year ended June 30, 2010, which collectively comprise Stone County School District's basic financial statements and have issued our report thereon dated February 10, 2012. 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 deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

McDaniel CPA Firm

McDaniel CPA Firm
Certified Public Accountant / Financial Consultant

Scotty McDaniel, CPA

MEMBER

Mississippi Society
of Certified Public
Accountants

INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT
AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

February 10, 2012

Superintendent and School Board
Stone County School District

Compliance

We have audited the compliance of the Stone County School District with the types of compliance requirements described in *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The Stone County School District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the school district's management. Our responsibility is to express an opinion on the school district's compliance based on our audit.

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

In our opinion, Stone County School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

Management of the Stone County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Stone County School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over compliance that might be deficiencies, 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

McDaniel CPA Firm

McDaniel CPA Firm
Certified Public Accountant / Financial Consultant

Scotty McDaniel, CPA

MEMBER

Mississippi Society
of Certified Public
Accountants

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

February 10, 2012

Superintendent and School Board
Stone County School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Stone County School District as of and for the year ended June 30, 2010, which collectively comprise Stone County School District's basic financial statements and have issued our report thereon dated February 10, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$ 3,699 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.

McDaniel CPA Firm

STONE COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

Section 1: Summary of Auditor's Results

Financial Statements:

- | | | |
|-----|---|---------------|
| 1 . | Type of auditor's report issued on the financial statements: | unqualified |
| 2 . | Noncompliance material to financial statements noted? | no |
| 3 . | Internal control over financial reporting: | |
| | a. Material weakness(es) identified? | no |
| | b. Significant deficiency (ies) identified that are not considered to be material weaknesses? | none reported |

Federal Awards:

- | | | |
|-----|---|---------------|
| 4 . | Type of auditor's report issued on compliance for major federal programs: | unqualified |
| 5 . | Internal control over major programs: | |
| | a. Material weakness(es) identified? | no |
| | b. Significant deficiency (ies) identified that are not considered to be material weaknesses? | none reported |
| 6 . | Any audit finding(s) reported as required by section ____ .510(a) of Circular A-133? | no |
| 7 . | Federal programs identified as major programs: | |
| | a. Special education cluster | |
| | CFDA # 84.027 | |
| | CFDA # 84.173 | |
| | CFDA # 84.391 | |
| | b. Title I cluster | |
| | CFDA # 84.010 | |
| | CFDA # 84.389 | |
| | c. Education state grants - recovery act | |
| | CFDA # 84.394 | |
| 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 |

Section 2: Financial Statement Findings

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