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CLARKSDALE MUNICIPAL SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2005

Robert Britt, CPA, P. A.
Clarksdale, Mississippi



CLARKSDALE MUNICIPAL SCHOOL DISTRICT

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CLARKSDALE MUNICIPAL SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

CLARKSDALE MUNICIPAL SCHOOL DISTRICT

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Robert Britt, CPA, P. A.

P O BOX 1477
947 SUNFLOWER AVENUE
SUITE B

TELEPHONE 662-624-6084
FAX 662-627-3984
CLARKSDALE MISSISSIPPI 38614

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

Superintendent and School Board
Clarksdale Municipal School District

I have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Clarksdale Municipal School District as of and for the year ended June 30, 2005, which collectively comprise the Clarksdale Municipal School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Clarksdale Municipal School District's management. My responsibility is to express opinions on these financial statements based on my audit.

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

In my opinion, 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 of the Clarksdale Municipal School District as of June 30, 2005 and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated December 14, 2006, on my consideration of the Clarksdale Municipal School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations contracts and grants and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The Management's Discussion and Analysis on pages 7 through 11 and the Budgetary Comparison Schedule and corresponding notes on pages 34 through 36 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

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

A handwritten signature in black ink, appearing to be "Robert B. Smith", written in a cursive style.

December 14, 2006

CLARKSDALE MUNICIPAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

CLARKSDALE MUNICIPAL SCHOOL DISTRICT

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CLARKSDALE MUNICIPAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005

The discussion and analysis of Clarksdale Municipal School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2005. 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.

This discussion and analysis is an element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999. Certain comparative information between the current year and the prior year is required to be presented.

FINANCIAL HIGHLIGHTS

Total net assets increased by \$1,544,508, which represents 34.9% increase from fiscal year 2004.

General revenues account for \$18,062,822 in revenue, or 71% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$7,429,400 or 29% of total revenues.

The District had \$23,947,714 in expenses; only \$7,429,400 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$18,062,822 were adequate to provide for these programs.

Among major funds, the General Fund had \$17,257,415 in revenues and \$16,716,883 in expenditures. The General Fund's fund balance increased \$614,321 over the prior year. This increase is the result of sound fiscal management.

Capital assets, net of accumulated depreciation, increased by \$9,039.

Long-term debt decreased by \$717,554. The district issued \$99,444 in new debt to cover a shortfall in ad valorem taxes from the prior year.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

The government-wide financial statements can be found on pages 14-15 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 17 and 19, respectively.

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

The basic governmental fund financial statements can be found on pages 16 and 18 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The school district's fiduciary activities are presented in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 20 and 21.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22-31 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also

presents certain required supplementary information concerning the District's budget process.

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund. This required supplementary information can be found on pages 34-36 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on pages 38-39 of this report and a schedule of instructional, administrative and other expenditures-governmental fund as required by the state auditor can be found on page 40.

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 \$5,972,780 as of June 30, 2005.

The District's net assets are comprised of its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, and furniture and equipment, less any related debt used to acquire those assets that is still outstanding. The District's net capital assets are a major component of net assets, accounting for 18.4% of net assets. Of the remaining net assets 56.1% or 3,352,144 is unrestricted and may be expended at the discretion of the school board. The remaining 25.5% is restricted for debt service, capital improvements, and unemployment benefits.

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

The following table presents a summary of the District's net assets for the fiscal year ended June 30, 2005 compared to the same period in 2004.

	<u>Governmental Activities</u>		Percentage Change
	2005	2004	
Current assets	7,231,160	6,543,075	10.52%
Capital assets, net	<u>12,613,305</u>	<u>12,604,266</u>	<u>0.07%</u>
Total assets	<u>19,844,465</u>	<u>19,147,341</u>	<u>3.64%</u>
Current liabilities	1,810,184	1,940,014	-6.69%
Long-term debt outstanding	<u>12,061,501</u>	<u>12,779,055</u>	<u>-5.62%</u>
Total liabilities	<u>13,871,685</u>	<u>14,719,069</u>	<u>-5.76%</u>
Net assets:			
Invested in capital assets, net of related debt	1,098,305	379,266	189.59%
Restricted	1,522,331	937,924	62.31%
Unrestricted	<u>3,352,144</u>	<u>3,111,082</u>	<u>7.75%</u>
Total net assets	<u>5,972,780</u>	<u>4,428,272</u>	<u>34.88%</u>

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

The principal retirement of \$828,605 of long-term debt.

The addition of \$433,806 in capital assets from improvements to existing schools, purchase of a school bus and purchase of equipment.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2005 were

\$24,887,193. The total cost of all programs and services was \$23,438,332. The following table presents a summary of the changes in net assets for the fiscal year ended June 30,2005 compared to the same period in 2004.

	<u>Governmental Activities</u>		<u>Percent Change</u>
	<u>2005</u>	<u>2,004</u>	
Revenues:			
Program revenues	7,429,400	8,427,575	-11.84%
General Revenues	18,062,822	16,219,648	11.36%
Insurance loss recovery	<u>0</u>	<u>237,282</u>	-100.00%
Total revenues	<u>25,492,222</u>	<u>24,884,505</u>	<u>2.44%</u>
Expenses:			
Instruction	13,378,737	13,099,104	2.13%
Support services	8,141,605	7,754,178	5.00%
Non-instructional	1,829,290	2,107,317	-13.19%
Interest on long-term obligations	<u>598,082</u>	<u>475,045</u>	<u>25.90%</u>
Total Expenses	<u>23,947,714</u>	<u>23,435,644</u>	<u>2.19%</u>
Increase in net assets	<u>1,544,508</u>	<u>1,448,861</u>	<u>6.60%</u>

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

	<u>Total Cost of Services</u>		<u>Percent Change</u>	<u>Net Revenue (Expense)</u>		<u>Percent Change</u>
	<u>2005</u>	<u>2004</u>		<u>2005</u>	<u>2004</u>	
Instruction	13,378,737	13,099,104	2.13%	(10,313,573)	(8,809,458)	17.07%
Support services	8,141,605	7,754,178	5.00%	(6,227,473)	(6,226,168)	0.02%
Non-instructional	1,829,290	2,107,317	-13.19%	(3,626)	(121,838)	-97.02%
Interest on long-term obligatio	<u>598,082</u>	<u>475,045</u>	<u>25.90%</u>	<u>26,358</u>	<u>149,395</u>	<u>-82.36%</u>
	<u>23,947,714</u>	<u>23,435,644</u>	<u>2.19%</u>	<u>(16,518,314)</u>	<u>(15,008,069)</u>	<u>10.06%</u>

Net cost of governmental activities \$ 16,518,314, was financed by general revenue, which is made up of primarily property taxes \$4,006,050 and State revenue \$13,514,036.

Investment earnings accounted for \$74,366 of funding.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$5,753,911, an increase of \$ 789,566 due primarily to sound fiscal management.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$614,321 due primarily sound fiscal management. The fund balance of Other Governmental Funds showed an increase of \$175,245.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget to account for expenditures in certain line items which exceeded original budgeted figures and to account for unanticipated revenue.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2005, the District's total capital assets were \$22,120,745, including land, school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$433,806 from the previous year due improvements to schools, purchase of a new bus, and purchases of new equipment. Total accumulated depreciation as of June 30, 2005 was \$9,507,440 and total depreciation expense for the year was \$424,767, resulting in total net assets of \$12,613,305.

Additional information of the District's capital assets can be found in Note 5 on page 28 of this report.

Debt Administration. At June 30, 2005, the District had \$12,061,501 in general obligation bonds and other long-term debt outstanding, of which \$766,970 is due within one year. During the year the district issued \$99,444 of ad valorem tax shortfall notes. The entire amount was repaid in June of 2005.

The District maintains a AA bond rating.

Additional information of the District's long-term debt can be found in Note 5 on pages 29-31 of this report.

CURRENT ISSUES

The Clarksdale Municipal School District is financially stable. The District is proud of its community support of the public schools.

The District is now committed to financial excellence. The millage has increased only slightly over the last few years despite funding cuts and additional mandated expenditures by the State of Mississippi. In addition, the district system of financial planning, budgeting and internal financial controls are now well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Clarksdale Municipal School District, P. O. Box 1088, Clarksdale, MS 38614.

CLARKSDALE MUNICIPAL SCHOOL DISTRICT

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CLARKSDALE MUNICIPAL SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS

CLARKSDALE MUNICIPAL SCHOOL DISTRICT

Exhibit A

Statement of Net Assets

June 30, 2005

	<u>Primary Government Governmental Activities</u>
Assets	
Cash and cash equivalents (Note 2)	\$ 6,535,365
Investments	45,202
Due from other governments	646,658
Inventories and prepaid items	3,935
Capital assets, net (Note 5)	<u>12,613,305</u>
Total Assets	\$ <u>19,844,465</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 1,360,894
Interest payable on long-term liabilities	332,935
Deferred revenue	116,355
Long-term liabilities, due within one year (Note 6)	
Capital related liabilities	680,000
Non-capital related liabilities	86,970
Long-term liabilities, due beyond one year (Note 6)	
Capital related liabilities	10,835,000
Non-capital related liabilities	<u>459,531</u>
Total Liabilities	\$ <u>13,871,685</u>
Net Assets	
Investment in capital assets, net of related debt	\$ 1,098,305
Restricted net assets:	
Expendable:	
Debt service	1,451,213
Capital improvements	7,957
Unemployment benefits	63,161
Unrestricted	<u>3,352,144</u>
Total Net Assets	\$ <u>5,972,780</u>

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

CLARKSDALE MUNICIPAL SCHOOL DISTRICT

Exhibit B

Statement of Activities

For the Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Assets
				Primary Governmental Activities
Primary Government:				
Governmental Activities:				
Instruction	\$ 13,378,737	180,401	2,884,763	(10,313,573)
Support services	8,141,605	38,226	1,875,906	(6,227,473)
Non-instructional	1,829,290	153,978	1,671,686	(3,626)
Interest on long-term liabilities	598,082		624,440	26,358
Total governmental activities	\$ 23,947,714	372,605	7,056,795	(16,518,314)
Taxes:				
General purpose levies				3,180,443
Debt service levies				825,607
Gaming				134,082
Unrestricted grants and contributions:				
State				13,514,036
Federal				257,554
Unrestricted investment earnings				74,366
Sixteenth section sources				37,200
Other				39,534
Total General Revenues				18,062,822
Change in Net Assets				1,544,508
Net Assets - Beginning				4,428,272
Net Assets - Ending				\$ 5,972,780

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

CLARKSDALE MUNICIPAL SCHOOL DISTRICT

Exhibit C

Balance Sheet - Governmental Funds

June 30, 2005

	<u>Major Funds</u>			
	<u>General Fund</u>	<u>Title 1 Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents (Note 3)	\$ 4,553,840	148,694	1,832,831	6,535,365
Investments			45,202	45,202
Due from other governments	172,034	48,635	425,989	646,658
Due from other funds (Note 4)	6,251		0	6,251
Inventories and prepaid items			3,935	3,935
Total Assets	\$ <u>4,732,125</u>	<u>197,329</u>	<u>2,307,957</u>	<u>7,237,411</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 974,000	197,329	189,565	1,360,894
Due to other funds (Note 3)			6,251	6,251
Deferred Revenue			116,355	116,355
Total Liabilities	<u>974,000</u>	<u>197,329</u>	<u>312,171</u>	<u>1,483,500</u>
Fund Balances:				
Reserved for:				
Inventory			3,935	3,935
Capital projects			7,957	7,957
Debt service			1,451,213	1,451,213
Unemployment benefits			63,161	63,161
Unreserved:				
Undesignated, reported in:				
General fund	3,758,125			3,758,125
Special Revenue funds			469,520	469,520
Total Fund Balances	<u>3,758,125</u>	<u>0</u>	<u>1,995,786</u>	<u>5,753,911</u>
Total Liabilities and Fund Balances	\$ <u>4,732,125</u>	<u>197,329</u>	<u>2,307,957</u>	<u>7,237,411</u>

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

CLARKSDALE MUNICIPAL SCHOOL DISTRICT
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2005

Exhibit C-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 5,753,911
Amounts 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 \$9,507,440. (Note 5)	12,613,305
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (Note 6)	(12,061,501)
3. Interest accrued on long-term liabilities is not due and payable in the current period and therefore is not reported in the funds.	<u>(332,935)</u>
Total Net Assets - Governmental Activities	\$ <u>5,972,780</u>

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

CLARKSDALE MUNICIPAL SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2005

Exhibit D

	<u>Major Funds</u>			Total Governmental Funds
	General Fund	Title 1 Fund	Other Governmental Funds	
Revenues:				
Local sources	\$ 3,485,824	1,771	1,221,839	4,709,434
State sources	13,514,037		1,836,188	15,350,225
Federal sources	257,554	1,683,953	3,431,161	5,372,668
Sixteenth section sources			37,200	37,200
Total Revenues	<u>17,257,415</u>	<u>1,685,724</u>	<u>6,526,388</u>	<u>25,469,527</u>
Expenditures:				
Instruction	10,304,463	911,265	2,016,833	13,232,561
Support services	6,057,569	691,394	1,230,751	7,979,714
Non instructional services	9,051	94,594	1,687,496	1,791,141
Facilities acquisition & construction	344,519		0	344,519
Debt service:				
Principal	1,191		827,414	828,605
Interest	90		625,470	625,560
Total Expenditures	<u>16,716,883</u>	<u>1,697,253</u>	<u>6,387,964</u>	<u>24,802,100</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>540,532</u>	<u>(11,529)</u>	<u>138,424</u>	<u>667,427</u>
Other Financing Sources (Uses):				
Proceeds of loans	99,444		0	99,444
Insurance loss recoveries	22,695		0	22,695
Operating transfers in (Note 3)	86,870	35,000	247,298	369,168
Operating transfers out (Note 3)	(135,220)	(23,471)	(210,477)	(369,168)
Total Other Financing Sources (Uses)	<u>73,789</u>	<u>11,529</u>	<u>36,821</u>	<u>122,139</u>
Net Change in Fund Balances	<u>614,321</u>	<u>0</u>	<u>175,245</u>	<u>789,566</u>
Fund Balances:				
July 1, 2004	<u>3,143,804</u>		<u>1,819,670</u>	<u>4,963,474</u>
Increase in reserve for inventory			<u>871</u>	<u>871</u>
June 30, 2005	<u>\$ 3,758,125</u>	<u>0</u>	<u>1,995,786</u>	<u>5,753,911</u>

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

CLARKSDALE MUNICIPAL SCHOOL DISTRICT

Exhibit D-1

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, 2005

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ 789,566
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 \$433,806 and the depreciation expense amounted to \$424,767. (Note 5)	9,039
2. Increase in Compensated absences is not recorded in the governmental funds, but increases expense in the statement of activities. (Note 6)	(11,607)
3. Payment of interest on long-term liabilities is reported as an expenditure when paid in the governmental funds, but is accrued and expensed in the period incurred in the statement of activities. (Note 6)	27,478
4. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of activities. (Note 6)	828,605
5. Loan proceeds are recorded as other revenue sources in the governmental funds, but loan proceeds increase long-term in the statement of activities (Note 6)	(99,444)
6. Increase in the inventory is reported as an adjustment to fund balance in the governmental funds, but non instructional expenditures are decreased in the statement of activities.	<u>871</u>
Change in Net Assets of Governmental Activities	\$ <u>1,544,508</u>

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

CLARKSDALE MUNICIPAL SCHOOL DISTRICT
Statement of Fiduciary Net Assets
June 30, 2005

Exhibit E

	Private Purpose Trust Funds	Agency Funds
Assets		
Cash and cash equivalents (Note 3)	\$ 11,123	\$ 838,180
Total Assets	<u>\$ 11,123</u>	<u>\$ 838,180</u>
Liabilities		
Accounts payable and accrued liabilities		827,208
Due to student clubs		<u>10,972</u>
Total Liabilities	<u>\$ 0</u>	<u>\$ 838,180</u>
Net Assets		
Restricted net assets:		
Expendable:		
Scholarships	723	
Nonexpendable		
Endowment for Scholarships	<u>10,400</u>	
Total Net Assets	<u>\$ 11,123</u>	<u>\$ 0</u>

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

CLARKSDALE MUNICIPAL SCHOOL DISTRICT

Exhibit F

Statement of Changes in Fiduciary Net Assets
For the Year Ended June 30, 2005

	<u>Private-Purpose Trust Funds</u>
Additions	
Interest on investments	\$ <u>142</u>
Total Additions	<u>142</u>
Deductions	
Scholarships awarded	<u>440</u>
Total Deductions	<u>440</u>
Change in Net Assets	<u>(298)</u>
Net Assets	
July 1, 2003	<u>11,421</u>
June 30, 2004	\$ <u><u>11,123</u></u>

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

CLARKSDALE MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ending June 30, 2005

(1) Summary of Significant Accounting Policies.

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

A. Financial Reporting Entity.

For financial reporting purposes, the entity includes all funds that are covered by the oversight responsibility of the school district's governing board. As defined by accounting principles generally accepted in the United States of America, the school district is considered an "other stand-alone government." The school district is a related organization, but not a component unit of, the City of Clarksdale since the governing authorities of the municipality select a majority of the school district's board but do not have financial accountability for the school district.

B. Basis of Presentation.

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

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

C. Measurement Focus and Basis of Accounting.

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting as are the Fiduciary Fund financial statements. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flow takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like

CLARKSDALE MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ending June 30, 2005

transactions are recognized when the exchange takes place. Program revenues on the Statement of Activities consist primarily of state appropriations and federal awards.

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

The school district reports the following major governmental funds:

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

Title I Fund - This is the school district's federal reimbursable fund that serves to fund remedial math and reading services to low-income, program eligible students.

All other governmental funds not meeting the criteria established for major funds are presented in the other governmental column of **Exhibit C**.

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

FIDUCIARY FUNDS

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

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

D. Account Classifications.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting* as issued in 2005 by the Government Finance Officers Association and are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 1990* issued by the U.S. Department of Education.

E. Encumbrances.

CLARKSDALE MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ending June 30, 2005

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

F. Cash and Cash Equivalents.

The school district deposits excess funds in financial institutions selected by the school board. State statutes specify how these depositories are to be selected.

Cash and cash equivalents consists of amounts on deposit in demand accounts and certificates of deposit with maturities of 12 months or less. Cash and cash equivalents are valued at cost.

G. Investments.

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

For accounting purposes, certificates of deposit are classified as investments if they have a maturity greater than 12 months when acquired.

Investments are reported at fair value.

H. Inventories and Prepaid Items.

Donated commodities are received from the USDA and are valued at USDA cost. Other inventories are valued at cost (calculated on the first-in, first-out basis).

The cost of governmental fund type inventories are reported as expenditures when purchased.

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

I. Capital Assets.

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

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

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

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

	<u>Capitalization Policy</u>	<u>Estimated Useful Life</u>
Land	\$ 0	0
Buildings	\$50,000	40 years
Buildings Improvements	\$25,000	20 years
Improvements other than buildings	\$25,000	20 years
Mobile equipment	\$ 5,000	5-10 years

CLARKSDALE MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ending June 30, 2005

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.

J. Long-term liabilities.

Long-term liabilities are the unmatured principal of bonds, warrants, notes, or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments. In the government-wide Statement of Net Assets, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column. See Note 6 for details.

K. Interfund Transactions and Balances.

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

Short-term (due within one year) interfund loan receivables are reported as "due from other funds" and are considered available expendable resources. Noncurrent portions of long-term interfund loan receivables are reported as advances and are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and, therefore, are not available for appropriation.

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

Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 4 for details for interfund transactions, including receivables and payables at year-end.

L. Equity Classifications.

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

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

CLARKSDALE MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ending June 30, 2005

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

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

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

M. Property Taxes

Ad valorem property taxes are levied by the governing authorities of the city 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.

N. Mississippi Adequate Education Program Revenues.

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

O. Compensated Absences.

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

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

P. Estimates.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

(2) Changes in Accounting Standards

As required, the School District has implemented Government Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures-an amendment of GASB Statement No. 3* for the current fiscal year. This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Appropriate note disclosures have been incorporated to comply with the requirements of this standard.

(3) Cash and Cash Equivalents, and Investments

Cash and Cash Equivalents.

The collateral for public entities' 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

CLARKSDALE MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ending June 30, 2005

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 Depository Insurance Corporation.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$6,535,365 and \$849,303, respectively. The carrying amount of deposits reported in the government-wide financial statements was: Cash and Cash Equivalents - \$6,535,365. The bank balance was \$7,370,294.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2005, none of the district's bank balance of \$7,370,294 was exposed to custodial credit risk.

Investments.

As of June 30, 2005, the district had the following investments.

<u>InvestmentType</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Rating</u>
Hancock Horrizon Treasury Fund	Less than 1 year	<u>45,202</u>	A
Total Investments		<u><u>45,202</u></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 the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk. As of June 30, 2005 none of the district's investment balance of \$45,202 was exposed to custodial credit risk.

(4) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

<u>Due From/To Other Funds:</u>	<u>Due From</u>	<u>Due to</u>
Governmental Funds		
General Fund	6251	
Other Governmental Funds		<u>6251</u>
Total	<u><u>\$6,251</u></u>	<u><u>\$6,251</u></u>

Interfund loans are necessary to provide cash to reimbursable prgrams at year end, since the actual cash is not received until after June 30.

CLARKSDALE MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ending June 30, 2005

B. Transfers In/Out:

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds		
General Fund	86,870	135,220
Title I	35,000	23,471
Other Governmental Funds	<u>247,298</u>	<u>210,477</u>
 Total	 <u>\$369,168</u>	 <u>\$369,168</u>

Transfers were made from federal funds for indirect costs. Also, transfers were made from the General Fund to other governmental funds to offset program cost which were not reimbursed by state or federal funds.

(5) Capital Assets.

The following is a summary of changes in capital assets:

	<u>Balance 7-1-04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Balance 6-30-05</u>
Land	<u>190,048</u>				<u>190,048</u>
Buildings	17,986,428				17,986,428
Buildings improvements	1,999,778	344,519			2,344,297
Mobile equipment	801,639	66,759			868,398
Furniture and equipment	695,540	22,528		13,506	731,574
Leased property under capital lease	<u>13,506</u>			<u>(13,506)</u>	<u>0</u>
 Total Depreciable Assets	 <u>21,496,891</u>	 <u>433,806</u>	 <u>0</u>	 <u>0</u>	 <u>21,930,697</u>
Less accumulated depreciation for:					
Buildings	8,067,037	201,657			8,268,694
Buildings improvements	16,190	93,772			109,962
Mobile equipment	499,121	69,463			568,584
Furniture and equipment	496,679	59,875		3,646	560,200
Leased property under capital lease	<u>3,646</u>			<u>(3,646)</u>	<u>0</u>
 Total accumulated depreciation	 <u>9,082,673</u>	 <u>424,767</u>	 <u>0</u>	 <u>0</u>	 <u>9,507,440</u>
 Net depreciable assets	 <u>12,414,218</u>	 <u>9,039</u>	 <u>0</u>	 <u>0</u>	 <u>12,423,257</u>
 Governmental activities capital assets net	 <u>12,604,266</u>	 <u>9,039</u>	 <u>0</u>	 <u>0</u>	 <u>12,613,305</u>

Depreciation was charged to the following functions:

	<u>Amount</u>
Instruction	223,856
Support services	161,891
Non-instructional	<u>39,020</u>
 Total depreciation expense	 <u>424,767</u>

The adjustment listed above is to move property formerly under capital lease to the category in which it belongs once the lease is paid off.

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

CLARKSDALE MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ending June 30, 2005

(6) Long-term Liabilities.

The following is a summary of changes in long-term liabilities:

	Balance 7-1-04	Additions	Reductions	Balance 6-30-05	Due within one year
A. General obligation bonds payable	\$5,935,000		\$330,000	\$5,605,000	\$345,000
B. Limited obligation bonds payable	6,290,000		315,000	5,975,000	335,000
C. Three mill notes payable	134,000		65,000	69,000	69,000
D. Obligations under capital lease	1,191		1,191	0	0
E. Shortfall notes payable	0	99,444	99,444	0	0
F. Other loans payable	124,070		17,970	106,100	17,970
G. Compensated absences payable	294,794	11,607		306,401	0
Total	<u>\$12,779,055</u>	<u>\$111,051</u>	<u>\$828,605</u>	<u>\$12,061,501</u>	<u>\$766,970</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:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
General Obligation Bonds, Series 1997	5.310%	11/1/96	11/1/16	\$7,830,000	\$5,605,000

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

Year Ending June 30,	Principal	Interest	Total
2006	345,000	282,794	627,794
2007	365,000	258,831	623,831
2008	385,000	235,925	620,925
2009	405,000	215,010	620,010
2010	425,000	193,633	618,633
2010-2015	2,490,000	602,346	3,092,346
2016-2019	1,190,000	57,238	1,247,238
Total	<u>5,605,000</u>	<u>1,845,777</u>	<u>7,450,777</u>

The amount of bonded indebtedness that can be incurred by the school district is limited by state statute. Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in state statutes, have been met. As of June 30, 2005, the amount of outstanding bonded indebtedness was equal to 8% of the property assessments as of September 30, 2004. This debt will be retired from the G O Bond debt service fund.

B. Limited obligation bonds payable.

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
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CLARKSDALE MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ending June 30, 2005

State aid capital improvement Bonds, Series 1998	4.5-6.25%	3/1/98	3/1/18	\$7,230,000	\$5,975,000
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The following is a schedule by years of the total payment due on this debt:

Year Ending June 30,	Principal	Interest	Total
2006	335,000	287,309	622,309
2007	355,000	266,790	621,790
2008	375,000	245,135	620,135
2009	400,000	222,635	622,635
2010	415,000	204,235	619,235
2010-2015	2,385,000	717,270	3,102,270
2016-2019	<u>1,710,000</u>	<u>156,150</u>	<u>1,866,150</u>
Total	<u>5,975,000</u>	<u>2,099,524</u>	<u>8,074,524</u>

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

C. Three mill-ten year notes payable.

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
1995 Limited Tax Note	5.45%	12/1/95	12/1/05	\$550,000	\$ 69,000

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

Year Ending June 30,	Principal	Interest	Total
2006	<u>69,000</u>	<u>3,761</u>	<u>72,761</u>
Total	<u>69,000</u>	<u>3,761</u>	<u>72,761</u>

F. Other notes payable.

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Asbestos Removal Note	0.00%	4/16/93	5/30/13	\$438,175	\$106,100

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

Year Ending June 30,	Principal	Interest	Total
2006	17,970		17,970
2007	17,970		17,970
2008	17,970		17,970
2009	17,970		17,970
2010	17,970		17,970
2010-2015	<u>16,250</u>		<u>16,250</u>
Total	<u>106,100</u>	<u>0</u>	<u>106,100</u>

CLARKSDALE MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements For the Year Ending June 30, 2005

This debt will be retired from the asbestos removal fund.

G. Compensated absences payable.

As more fully explained in Note 1(P), compensated absences is adjusted on an annual basis as required by Section 37-7-307(5), Miss. Code Ann. (1972).

(7) Defined Benefit Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary the school district is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2005, 2004, and 2003 were \$1,206,547, \$1,157,094 and \$1,149,899, respectively, which equaled the required contribution for each year.

(8) Risk Management.

The school district is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. Except as described below, the district carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three 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 consist of approximately 127 school districts and covers risks of loss arising from injuries to the school district's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Bancorp South Bank in Jackson. The funds in the trust account are used to pay any claim up to \$400,000. For a claim exceeding \$400,000, MSBAWCT has insurance which will pay the excess up to \$25,000,000. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

CLARKSDALE MUNICIPAL SCHOOL DISTRICT

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CLARKSDALE MUNICIPAL SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

CLARKSDALE MUNICIPAL SCHOOL DISTRICT

Schedule 1

Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 3,590,704	3,616,303	3,485,824	25,599	(130,479)
State sources	13,972,752	13,514,037	13,514,037	(458,715)	0
Federal Sources	105,366	108,579	257,554	3,213	148,975
Total Revenues	<u>17,668,822</u>	<u>17,238,919</u>	<u>17,257,415</u>	<u>(429,903)</u>	<u>18,496</u>
Expenditures:					
Instruction	11,140,741	10,304,463	10,304,463	836,278	0
Support services	6,564,081	5,909,875	6,057,569	654,206	(147,694)
Noninstructional services	65,214	9,051	9,051	56,163	0
Facilities acquisition & construction	159,743	344,519	344,519	(184,776)	0
Debt service:					
Principal			1,191	0	(1,191)
Interest			90	0	(90)
Total Expenditures	<u>17,929,779</u>	<u>16,567,908</u>	<u>16,716,883</u>	<u>1,361,871</u>	<u>(148,975)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(260,957)</u>	<u>671,011</u>	<u>540,532</u>	<u>931,968</u>	<u>(130,479)</u>
Other Financing Sources (Uses):					
Proceeds of loans	0	0	99,444	0	99,444
Insurance loss recovery	0	22,695	22,695	22,695	0
Operating transfers in	96,582	86,870	86,870	(9,712)	0
Operating transfers out	(267,402)	(135,220)	(135,220)	132,182	0
Total Other Financing Sources (Uses)	<u>(170,820)</u>	<u>(25,655)</u>	<u>73,789</u>	<u>145,165</u>	<u>99,444</u>
Net Change in Fund Balances	<u>(431,777)</u>	<u>645,356</u>	<u>614,321</u>	<u>1,077,133</u>	<u>(31,035)</u>
Fund Balances:					
July 1, 2004	<u>1,391,438</u>	<u>3,217,999</u>	<u>3,143,804</u>	<u>1,826,561</u>	<u>(74,195)</u>
June 30, 2005	<u>959,661</u>	<u>3,863,355</u>	<u>3,758,125</u>	<u>2,903,694</u>	<u>(105,230)</u>

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

CLARKSDALE MUNICIPAL SCHOOL DISTRICT

Schedule 2

Budgetary Comparison Schedule

Title I Fund

For the Year Ended June 30, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 3,776	1,771	1,771	(2,005)	0
Federal sources	2,926,776	1,683,953	1,683,953	(1,242,823)	0
Total Revenues	2,930,552	1,685,724	1,685,724	(1,244,828)	0
Expenditures:					
Instruction	1,701,235	911,265	911,265	(789,970)	0
Support services	1,161,791	691,394	691,394	(470,397)	0
Noninstructional services	20,433	94,594	94,594	74,161	0
Total Expenditures	2,883,459	1,697,253	1,697,253	(1,186,206)	0
Excess (Deficiency) of Revenues Over Expenditures	47,093	(11,529)	(11,529)	(58,622)	0
Other Financing Sources (Uses):					
Operating transfers in		35,000	35,000	35,000	0
Operating transfers out	(47,093)	(23,471)	(23,471)	23,622	0
Total Other Financing Sources (Uses)	(47,093)	11,529	11,529	58,622	0
Net Change in Fund Balances	0	0	0	0	0
Fund Balances:					
July 1, 2003	0	0	0	0	0
June 30, 2004	0	0	0	0	0

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

CLARKSDALE MUNICIPAL SCHOOL DISTRICT

Notes to the Required Supplementary Information For the Year Ending June 30, 2005

Notes to the Required Supplementary Information

(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 the date established by the Mississippi Department of Education. 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.

(3) Individual Fund Disclosures.

The District Maintenance Fund has an excess of expenditures over budget in the amount of \$148,975. The fund with the excess of expenditures over budget is not in violation of state law since the excess resulted from auditor's adjustments.

CLARKSDALE MUNICIPAL SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

CLARKSDALE MUNICIPAL SCHOOL DISTRICT
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2005

Schedule 3

<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 the Mississippi Department of Education:		
Non-cash assistance: Food Donation	10.550	101,750
Child Nutrition Cluster:		
School Breakfast Program	10.553	425,261
National School Lunch Program	10.555	1,228,963
Summer food service program for children	10.559	<u>10,780</u>
 Total Nutrition Cluster		 <u>1,665,004</u>
 Child and adult care food program	 10.558	 <u>1,079</u>
 Total Passed through Mississippi Department of Education		 <u>1,767,833</u>
 Total U.S. Department of Agriculture		 <u>1,767,833</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company		
The schools and libraries program of the universal service fund	32.xxx	<u>257,554</u>
 Total Federal Communication Commission		 <u>257,554</u>
<u>U.S. Department of Education</u>		
Passed through Mississippi Department of Education		
Special Education Cluster		
Special education grants to states	84.027	622,854
Special education - preschool grants	84.173	<u>26,195</u>
Total Special Education Cluster		649,049
 Title 1 grants to local educational agencies	 84.010	 1,828,381
Vocational education - basic grants to states	84.048	65,907
Safe and drug free schools and communities- state grants	84.186	23,280
State grants for innovative programs	84.298	20,590
Education technology -state grants	84.318	41,530
Rural education	84.358	134,442
Improving teacher quality - state grants	84.367	<u>568,767</u>
 Total Passed through Mississippi Department of Education		 <u>3,331,946</u>
 Total U.S. Department of Education		 <u>3,331,946</u>
 Total for All Federal Awards		 <u>5,357,333</u>

NOTES TO SCHEDULE

1. This schedule was prepared using the same basis of accounting and the significant accounting policies, as applicable, used for the general purpose financial statements.
2. The expenditure amounts include transfers out.
3. The pass-through entities did not assign identifying numbers to the school district.
4. The balance outstanding at June 30, 2005 of the loan received in a previous year under former CFDA #66.702 for asbestos removal was \$106,100.

CLARKSDALE MUNICIPAL SCHOOL DISTRICT

Schedule 4

Schedule of Instructional, Administrative and Other Expenditures- Governmental Funds
For the Year Ended June 30, 2005

Functions/Programs	Total	Instructional	Administrative	Other
Salaries and fringe benefits	\$ 16,018,673	\$ 12,176,889	\$ 2,125,714	\$ 1,716,070
Other expenditures	<u>7,929,041</u>	<u>1,201,848</u>	<u>220,227</u>	<u>6,506,966</u>
Total	\$ <u>23,947,714</u>	\$ <u>13,378,737</u>	\$ <u>2,345,941</u>	\$ <u>8,223,036</u>
Total number of students:	3,643			
Cost per student:	\$ <u>6,574</u>	\$ <u>3,672</u>	\$ <u>644</u>	\$ <u>2,257</u>

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

Instruction - 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 functional codes

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

Support Services - School Administration (2400s); Support Services - Business (2500s)

CLARKSDALE MUNICIPAL SCHOOL DISTRICT

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

CLARKSDALE MUNICIPAL SCHOOL DISTRICT

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Robert Britt, CPA, P. A.

P O BOX 1477
947 SUNFLOWER AVENUE
SUITE B

TELEPHONE 662-624-6084
FAX 662-627-3984
CLARKSDALE MISSISSIPPI 38614

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

Superintendent and School Board
Clarksdale Municipal School District

I have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Clarksdale Municipal School District as of and for the year ended June 30, 2005, which collectively comprise the Clarksdale Municipal School District's basic financial statements as listed in the table of contents and have issued my report thereon dated December 14, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the school district's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I did not note any matters involving internal control over financial reporting and its operation that I consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

A handwritten signature in cursive script, appearing to read "Robert D. Smith".

December 14, 2006

CLARKSDALE MUNICIPAL SCHOOL DISTRICT

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

CLARKSDALE MUNICIPAL SCHOOL DISTRICT

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Robert Britt, CPA, P. A.

P O BOX 1477
947 SUNFLOWER AVENUE
SUITE B

TELEPHONE 662-624-6084
FAX 662-627-3984
CLARKSDALE MISSISSIPPI 38614

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

Superintendent and School Board
Clarksdale Municipal School District

Compliance

I have audited the compliance of the Clarksdale Municipal School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The school district's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the district's management. My responsibility is to express an opinion on the school district's compliance based on my audit.

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

In my opinion, the Clarksdale Municipal School District, complied, in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the Clarksdale Municipal School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the school district's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I did not note any matters involving internal control over compliance and its operation that I consider to be material weaknesses.

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



December 14, 2006

CLARKSDALE MUNICIPAL SCHOOL DISTRICT

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

CLARKSDALE MUNICIPAL SCHOOL DISTRICT

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Robert Britt, CPA, P. A.

P O BOX 1477
947 SUNFLOWER AVENUE
SUITE B

TELEPHONE 662-624-6084
FAX 662-627-3984
CLARKSDALE MISSISSIPPI 38614

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

Superintendent and School Board
Clarksdale Municipal School District

I have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Clarksdale Municipal School District as of and for the year ended June 30, 2005, which collectively comprise the Clarksdale Municipal School District's basic financial statements and have issued my report thereon dated December 14, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

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

The results of my procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$146,981 of classroom supply funds carried over from previous years.

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

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



December 14, 2006

CLARKSDALE MUNICIPAL SCHOOL DISTRICT

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CLARKSDALE MUNICIPAL SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CLARKSDALE MUNICIPAL SCHOOL DISTRICT

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CLARKSDALE MUNICIPAL SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

Section 1: Summary of Auditor's results

Financial Statements:

- | | |
|--|-------------|
| 1. Type of auditor's report issued on the general purpose financial statements: | Unqualified |
| 2. Material noncompliance relating to the general purpose financial statements? | No |
| 3. Internal control over financial reporting: | |
| a. Material weakness(es) identified? | No |
| b. Reportable condition(s) identified that are not considered to be material weaknesses? | No |

Federal Awards:

- | | |
|--|-------------|
| 4. Type of auditor's opinion issues on compliance for major programs: | Unqualified |
| 5. Internal control over major programs: | |
| a. Material weakness(es) identified? | No |
| b. Reportable condition(s) identified that are not considered to be material weaknesses? | No |
| 6. Any audit finding(s) reported as required by Section ____ .510(a) of Circular A-133? | No |
| 7. The major programs were: | |

Child Nutrition Cluster	
School Breakfast Program	- CFDA 10.553
National School Lunch Program	- CFDA 10.555
Summer Food Service Program for Children	- CFDA 10.559
Special Education Cluster	
Special Education Grants to States	- CFDA 84.027
Special Education Preschool Grants	- CFDA 84.173
Title 1 Grants to Local Educational Agencies	- CFDA 84.010
Improving Teacher Quality - State Grants	- CFDA 84.367

- | | |
|--|------------|
| 8. The dollar threshold used to distinguish between Type A and Type B programs: | \$300,000. |
| 9. Auditee qualified as a low-risk auditee? | Yes |
| 10. Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary of prior audit findings as discussed in Section ____ .315(b) of OMB Circular A-133. | No |

Section 2: Findings Related to the Financial Statements

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

Section 3: Findings and Questioned Cost for Federal Awards

The result of my test did not disclose any findings and questioned cost related to the federal awards.