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YAZOO CITY MUNICIPAL SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2005

YAZOO CITY MUNICIPAL SCHOOL DISTRICT
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YAZOO CITY MUNICIPAL SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

(601) 981-5707

LYLES AND SINCLAIR

CERTIFIED PUBLIC ACCOUNTANTS

P. O. BOX 11625 • JACKSON, MISSISSIPPI 39283-1625

MARY LYLES, CPA, MPA

TRACEY SINCLAIR, CPA

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

Superintendent and School Board
Yazoo City Municipal School District

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Yazoo City Municipal School District as of and for the year ended June 30, 2005, which collectively comprise the Yazoo City Municipal School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Yazoo City Municipal 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 Yazoo City 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.

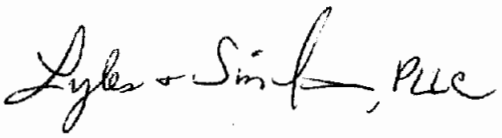
In accordance with *Government Auditing Standards*, we have also issued our report dated July 19, 2007, on our consideration of the Yazoo City Municipal School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts 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 4 through 11and the Budgetary Comparison Schedule and corresponding notes on pages 34 through 37 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Yazoo City Municipal 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

MEMBER:
American Institute of CPA's, Mississippi Society of CPA's, and Mississippi Association of Black CPA's

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.



Lyles and Sinclair, PLLC

July 19, 2007

YAZOO CITY MUNICIPAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

"Closing the Achievement Gap"

YAZOO CITY MUNICIPAL SCHOOL DISTRICT
Rebecca Turner-Berry, Superintendent
Post Office Box 127 ~Yazoo City, Mississippi 39194

Telephone (662) 746-2125 ~ ~ Telefax (662) 746-5062

YAZOO CITY MUNICIPAL SCHOOL DISTRICT
MANAGAMENT'S DICUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005

The discussion and analysis of Yazoo City 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.

FINANCIAL HIGHLIGHTS

- Total net assets increased $1,718,687, which represents 26% of ending net assets.
- General revenues account for $14,484,979 in revenue, or 71% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for $5,975,066 or 29% of total revenues.
- The District had $18,741,358 in expenses; only $5,975,066 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of $14,484,979 were adequate to provide for these programs.
- Among major funds, the General Fund had $13,530,590 in revenues and $11,720,879 in expenditures. The General Fund's fund balance increased $1,351,756 over the prior year because of careful spending and budget constraints.
- Capital assets, net of accumulated depreciation, decreased by $240,950 due to the sell of school buses and annual depreciation.

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 13 - 14 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 that 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 16 and 18, respectively.

The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School*. 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 15 - 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 on page 19.

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 20 - 32 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 33 - 37 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on page 39 – 40 of this report.

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 Yazoo City Municipal Schools, assets exceeded liabilities by $6,562,899 as of June 30, 2005.

By far the largest portion of the District's net assets (34%) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile

equipment, furniture and equipment, and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

The following table presents a summary of the District's net assets for the fiscal year ended June 30, 2005.

	2005	2004
Current assets	$ 2,621,936	$ 2,942,752
Other assets	2,333,100	852,222
Capital assets, net	12,388,765	12,629,715
Total assets	17,343,801	16,424,689
Current liabilities	1,324,504	1,340,975
Long-term debt outstanding	9,456,398	10,239,502
Total liabilities	10,780,902	11,580,477
Net assets:		
Invested in capital assets, net of related debt	2,275,723	2,179,583
Restricted	1,930,658	1,550,442
Unrestricted	2,356,518	1,114,187
Total net assets	$ 6,562,899	$ 4,844,212

Changes in net assets. The District's total revenues for the fiscal year ended June 20, 2005 were $20,460,045. The total cost of all programs and services was $18,741,358. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2005.

	2005	2004
Revenues:		
Program revenues	$ 5,975,066	$ 6,029,572
General revenues	14,484,979	12,060,449
Total revenues	20,460,045	18,090,021
Expenses:		
Instruction	10,114,093	9,750,705
Support services	6,248,174	4,898,655
Non-instructional	1,785,177	1,609,004
Sixteenth section		
Interest on long-term liabilities	593,914	691,843
Total expenses	18,741,358	16,950,207
Increase (Decrease) in net assets	$ 1,718,687	$ 1,139,814

Governmental activities. The following table presents the cost of five major District functional activities: instruction, support services, non-instructional, and interest on long-term debt. 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.

	2005		2004	
	Total Expenses	Net(Expense) Revenue	Total Expenses	Net(Expense) Revenue
Instruction	$ 10,114,093	$ (8,048,594)	$ 9,750,705	$ (6,146,480)
Support services	6,248,174	(4,478,438)	4,898,655	(3,070,048)
Non-instructional	1,785,177	354,654	1,609,004	(1,012,264)
Interest on long-term liabilities	593,914	(593,914)	691,843	(691,843)
Total expenses	$ 18,741,358	$ (12,766,292)	$ 16,950,207	$(10,920,635)

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of $4,508,926, an increase of $1,359,720 due primarily to careful spending and budget constraints. $3,710,741 or 82% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of $798,185 or 18% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was $1,351,756 a result of careful spending careful spending and budget constraints. The fund balance of Other Governmental Funds showed an increase due primarily to careful spending and teacher shortage.

BUDGETARY HIGHLIGHTS

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

- **Budget amounts for revenue from local sources was increased due to unexpected revenue from local sources. Budget was amended to prevent overruns.**
- **State revenue higher than budgeted due to end of year state funding decision. Actual expenditures less than expected due to careful spending.**

A schedule showing the original and final budget amounts compared to the District's actual financial activity 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 $17,209,321 including land, school buildings, busses, other school vehicles and furniture and equipment. This amount represents a decrease of $39,844 from the previous year. Total accumulated depreciation as of June 30, 2005 was $4,820,556 and total depreciation expense for the year was $246,576, resulting in total net capital assets of $12,388,765.

Additional information of the District's capital assets can be found in Note 5 on page 27 of this report.

Debt Administration. At June 30, 2005, the District had $10,198,190 in general obligation bonds and other long-term debt outstanding, of which $656,644 is due within one year.

Additional information of the District's long-term debt can be found in Note 6 on page 28 of this report.

CURRENT ISSUES

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

The District has committed itself to financial excellence for many years. The District system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

Latest enrollment figures indicate that student enrollment in the District will decline. 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 Yazoo City Municipal School District, 1133 Calhoun Ave., Yazoo City, MS 39194.

YAZOO CITY MUNICIPAL SCHOOL DISTRICT

FINANCIAL STATEMENTS

YAZOO CITY MUNICIPAL SCHOOL DISTRICT

Exhibit A

Statement of Net Assets

June 30, 2005

		Governmental Activities
Assets		
Cash and cash equivalents	$	2,578,961
Cash with fiscal agents		42,975
Investments		
Due from other governments		2,063,700
Accrued interest receivable		
Other receivables, net		59,829
Inventories and prepaid items		41,111
Deferred charges		
Restricted assets		168,460
Capital assets, net		12,388,765
Total Assets		17,343,801
Liabilities		
Accounts payable and accrued liabilities		310,744
Due to other governments		
Deferred revenue/Unearned revenue		75,539
Interest payable on long-term liabilities		196,429
Long-term liabilities, due within one year		
Capital related liabilities		656,644
Non-capital related liabilities		85,148
Long-term liabilities, due beyond one year		
Capital related liabilities		9,456,398
Non-capital related liabilities		
Total Liabilities		10,780,902
Net Assets		
Invested in capital assets, net of related debt		2,275,723
Restricted net assets:		
Expendable:		
School-based activities		1,030,625
Debt service		310,817
Capital improvements		364,709
Forestry improvements		3,127
Unemployment benefits		52,920
Non-expendable:		
Sixteenth section		168,460
Other		
Unrestricted		2,356,518
Total Net Assets	$	6,562,899

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

YAZOO CITY MUNICIPAL SCHOOL DISTRICT
Statement of Activities
FOR THE YEAR ENDED JUNE 30, 2005

Exhibit B

Functions/Programs	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets Primary Government Governmental Activities
Primary government:					
Governmental Activities:					
Instruction	10,114,093	136,250	1,816,634	112,615	(8,048,594)
Support Services	6,248,174		1,769,736		(4,478,438)
Noninstructional Services	1,785,177	167,740	1,972,091		354,654
Sixteenth Section					0
Interest on Long-term Liabilities	593,914				(593,914)
Total governmental activities	18,741,358	303,990	5,558,461	112,615	(12,766,292)

General Revenues	
Taxes:	
General Purpose Levies	1,148,268
Debt Purpose Levies	553,396
Gaming	692
Unrestricted grants and contributions	
State	12,126,070
Federal	69,353
Unrestricted investment earnings	43,052
Sixteenth section sources	285,395
Other	258,753
Total general revenues	14,484,979
Change in net assets	1,718,687
Net assets-beginning	4,844,212
Net assets-ending	$ 6,562,899

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

YAZOO CITY MUNICIPAL SCHOOL DISTRICT

Exhibit C

Balance Sheet - Governmental Funds

June 30, 2005

	Major Funds						
	General Fund	Food Service	MS Reading First Fund	Three Mill Note Fund	Bond Issue Reserve Fund	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash and cash equivalents	$ 1,404,839	631,684	47,194	367,878	245,468	50,358	2,747,421
Cash with fiscal agents						42,975	42,975
Due from other governments	856,653		53,736	2,795	10,248	1,140,268	2,063,700
Due from other funds	427,633				111,483	259,386	798,502
Inventories and prepaid items		41,111					41,111
Total Assets	$ 2,689,125	672,795	100,930	370,673	367,199	1,492,987	5,693,709
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable and accrued liabilities	$ 29,734	7,164	21,112			(75,215)	(17,205)
Due to other funds	302,873		4,279	289,868	103,197	426,232	1,126,449
Deferred revenue			75,539				75,539
Unearned revenue							
Total Liabilities	332,607	7,164	100,930	289,868	103,197	351,017	1,184,783
Fund Balances:							
Reserved for:							
Inventory		41,111					41,111
Debt Service				80,805	264,002	187,760	532,567
Unemployment benefits						52,920	52,920
Forestry improvement purposes						3,127	3,127
Permanent fund purposes						168,460	168,460
Unreserved:							
Undesignated, reported in:							
General Fund	2,356,518						2,356,518
Special Revenue Funds		624,520				364,994	989,514
Capital Projects Funds						364,709	364,709
Debt Service Funds							
Permanent Funds							
Total Fund Balances	2,356,518	665,631		80,805	264,002	1,141,970	4,508,926
Total Liabilities and Fund Balances	$ 2,689,125	672,795	100,930	370,673	367,199	1,492,987	5,693,709

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

YAZOO CITY MUNICIPAL SCHOOL DISTRICT

Exhibit C-1

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2005

		Amount
Total Fund Balance - Governmental Funds	$	4,508,926
Amounts reported for governmental activities in the statement of net assets are different because:		
1. Capital assets are used in governmental activities and are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of $4,820,556.		12,388,765
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		(10,198,190)
3. Governmental funds recognize interest on long-term debt when it becomes due, however the Statement of Net Assets recognizes interest as it accrues.		(196,429)
4. Lease receivable that is not available to pay for current period expenditures is not reported in the funds.		59,829
Rounding		(2)
Total Net Assets - Governmental Activities	$	6,562,899

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

YAZOO CITY MUNICIPAL SCHOOL DISTRICT

Exhibit D

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2005

	Major Funds						
	General Fund	Fund #2110 Food Service Fund	Fund #2215 MS Reading Fund	Fund #4021 Three Mill Note Fund	Fund #4031 Bond Issue ReserveFund	Other Governmental Funds	Total Governmental Funds
REVENUES							
Local sources	1,572,766	185,711		122,195	438,499	2,962	2,322,133
State sources	11,844,618	7,987				698,533	12,551,138
Federal sources	113,206	1,382,893	545,581			3,259,649	5,301,329
Sixteenth section revenue						225,566	225,566
TOTAL REVENUES	13,530,590	1,576,591	545,581	122,195	438,499	4,186,710	20,400,166
EXPENDITURES							
Instruction	7,820,789		283,713			1,997,089	10,101,591
Support Services	3,695,472	127,148	260,106	500	180	1,931,271	6,014,677
Noninstructional services	4,150	1,324,744	10,918			436,952	1,776,764
Sixteenth section							0
Facilities Acquisition and Construction							0
Debt service:							
Principal	174,722			110,000	200,000	170,000	654,722
Interest	25,746			84,113	243,305	140,428	493,592
Other							0
TOTAL EXPENDITURES	11,720,879	1,451,892	554,737	194,613	443,485	4,675,740	19,041,346
Excess (deficiency) of Revenues Over Expenditures	1,809,711	124,699	(9,156)	(72,418)	(4,986)	(489,030)	1,358,820
Other Financing Sources(Uses)							
Proceeds of Loans							0
Inception of Capital Leases							0
Insurance loss recoveries							0
Sale of property	900						900
Payment held by Escrow Agent							0
Transfers in	967,910			153,223		905,605	2,026,738
Transfers out	(1,426,765)	(130,602)	(5,319)			(464,052)	(2,026,738)
Payment to Qualified Zone Academy Debt Escrow Agent							0
Other financing sources							0
Other financing uses							0
Total Other Financing Sources and Uses	(457,955)	(130,602)	(5,319)	153,223	0	441,553	900
Net Change in Fund Balances	1,351,756	(5,903)	(14,475)	80,805	(4,986)	(47,477)	1,359,720
Fund Balances--July 1, 2004	1,004,762	676,924	14,475	0	268,988	1,189,447	3,154,596
Prior period adjustments (Note 9)							0
July 1, 2004, as restated	1,004,762	676,924	14,475	0	268,988	1,189,447	3,154,596
Increase (decrease) in reserve for inventory		(5,390)					(5,390)
Fund Balances--June 30, 2005	2,356,518	665,631	0	80,805	264,002	1,141,970	4,508,926

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

YAZOO CITY MUNICIPAL SCHOOL DISTRICT

Exhibit D-1

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities

For the Year Ended June 30, 2005

			Amount
Net change in fund balances - governmental funds		$	1,359,720
Amounts reported for governmental activities in the statement of net activities are different because:			
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the live of the assets. Capital assets purchases amounted to $12,294 and the depreciation expense amounted to $246,576.			(234,282)
2. Revenues in the statement of activity that do not provide current financial resources are not reported as revenues in the governmental funds.			
Increase in leases receivable			59,829
3. Payment on principal on long-term liabilities is reported as expenditures in the governmental funds, but the payment reduces long-term liabilities in the statement of activity.			654,722
5. In the statement of activities, expenses and liabilities are reported regardless of when financial resources are available.			
Accrued interest payable	(100,322)		
Increase in compensated absences	(8,922)		
Decrease in reserve for inventory	(5,390)		(114,634)
6. In the statement of activities, disposal of capital assets are reported, whereas in governmental funds, proceeds from the sale of capital assets increase financial resouuces.			(6,668)
Changes in net assets of governmental activities		$	1,718,687

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

YAZOO CITY MUNICIPAL SCHOOL DISTRICT

Exhibit 5

Statement of Fiduciary Net Assets and Liabilities

June 30, 2005

		Agency Funds
ASSETS		
Cash	$	25,896
Accrued interest receivable		535
Interfund receivables		417,513
Total Assets	$	443,944
LIABILITIES		
Claims payable and other accrued liabilities		329,592
Due to student clubs		24,786
Interfund payables		89,566
Total Liabilities	$	443,944

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

(1) Summary of Significant Accounting Policies.

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

A. Financial Reporting Entity.

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the school district's governing board. As defined by accounting principles generally accepted in the United States of America, the school district is considered an "other stand-alone" government. The school district is a related organization of, but not a component unit of, the city of Yazoo City since the governing authority of the city selects a majority of the school district's board but does 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 transactions are recognized when the exchange takes place. Program revenues on the Statement of Activities consist primarily of state appropriations and federal awards.

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

The school district reports the following major governmental 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.

Food Service Fund - This fund is used to account for revenues and expenditures of the federal program which is used to provide nutritional meals for the district.

Three Mill Note Fund - This fund serves to account for funds from a three-mill note that was issued for capital improvements.

Bond Issue Reserve Fund - This fund serves to account for funds from a bond issue that was issued for capital improvements.

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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.

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.

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

F. Cash and Cash Equivalents.

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

Cash and cash equivalents consists of amounts on deposit in demand accounts and certificates of deposit with maturities of 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 costs of governmental fund type inventories are reported as expenditures when purchased.

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

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

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

(*) The threshold amount will correspond with the amounts for the asset classifications, as listed. See Note 4 for details.

J. Long-term liabilities.

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

K. Interfund Transactions and Balances.

Interfund transactions and balances are the result of timing differences between the date 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.

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 3 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 borrowing that are attributable to the acquisition, construction 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 a specific future use or are not available for current operations. Following is a description of fund reserves used by the district:

Reserved for unemployment benefits - An account that represents the unemployment revolving fund balance, which is legally restricted for the payment of unemployment benefits.

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

Reserved for debt service - An account that represents a portion of the fund balance for the debt service fund resources which are legally restricted for the payment of general long-term debt principal and interest amounts maturing in future years.

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 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.

M. Property Taxes.

Ad valorem property taxes are levied by the governing authority 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 amount as required by state law or at a

greater amount provided by school district policy. Some employees are allowed personal leave and/or vacation leave in accordance with school district policy. The district pays for unused leave for employees as required by Section 37-7-307(5), 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.

(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 Cash with Fiscal Agents.

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 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 Depository Insurance Corporation.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was $2,747,421and $25,896, respectively. The carrying amount of deposits reported in the government-wide financial statements was: Cash and Cash Equivalents - $2,578,961and Restricted Assets - $168,460. The Restricted Assets represent the cash balance 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. The bank balance was $3,351,872.

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 $3,351,872 was exposed to custodial credit risk.

Cash with Fiscal Agents.

The carrying amount of school districts cash with fiscal agents held by financial institutions was $42,975.

(4) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds.

		Due From	Due To
Governmental Funds:			
General Fund	$	427,633	302,873
MS Reading First Fund			4,279
Three Mill Note Fund			289,868
Bond Issue Reserve Fund		111,483	103,197
Other governmental funds		259,386	426,232
Fiduciary Funds		417,513	89,566
Total	$	1,216,015	1,216,015

Interfund loans were to cover deficit cash balances.

B. Transfers In/Out.

		Transfer In	Transfers Out
Governmental Funds:			
General Fund	$	967,910	1,426,765
Food Service			130,602
MS Reading First Fund			5,319
Three Mill Note Fund		153,223	
Other governmental funds		905,605	464,052
Total	$	2,026,738	2,026,738

Transfers in and out were for year-end closing entries, indirect cost, and correcting posting errors.

(5) Capital Assets.

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

	Balance 7-1-2004	Additions	Retirements	Completed Construction	Adjustments	Balance 6-30-2005
Non-depreciable capital assets:						
Land	$ 604,644					604,644
Total non-depreciable capital assets	604,644	0	0	0	0	604,644
Depreciable capital assets:						
Buildings	14,848,378					14,848,378
Improvements other than buildings	188,811					188,811
Mobile equipment	693,108		39,273			653,835
Furniture and equipment	886,289	12,294	12,865			885,718
Leased property under capital leases	27,935					27,935
Total depreciable capital assets	16,644,521	12,294	52,138	0	0	16,604,677
Less accumulated depreciation for:						
Buildings	(3,745,467)	(196,066)				(3,941,533)
Improvements other than buildings	(83,342)	(3,580)				(86,922)
Mobile equipment	(432,037)	(38,267)	(32,734)			(437,570)
Furniture and equipment	(342,860)	(8,663)	(12,736)			(338,787)
Leased property under capital leases	(15,744)					(15,744)
Total accumulated depreciation	(4,619,450)	(246,576)	(45,470)	0	0	(4,820,556)
Total depreciable capital assets, net	12,025,071	(234,282)	6,668	0	0	11,784,121
Governmental activities capital assets, net	$ 12,629,715	(234,282)	6,668	0	0	12,388,765

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	$ 3,580
Support services	239,973
Non-instructional	3,023
Total Depreciation Expense	$ 246,576

(6) Long-term liabilities.

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

YAZOO CITY MUNICIPAL SCHOOL DISTRICT

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

		Balance 7-1-2004	Additions	Reductions	Adjustments	Balance 6-30-2005	Amounts due within one year
A.	General obligation bonds payable	$ 4,955,000		185,000	(15,000)	4,755,000	195,000
B.	Limited obligation bonds payable	3,155,000		160,000	(10,000)	2,985,000	170,000
C.	Limited Tax Notes Payable	1,820,000		110,000		1,710,000	115,000
D.	Obligations under energy efficiency lease	815,264		169,722		645,542	171,644
E.	Other notes payable	22,500		5,000		17,500	5,000
F.	Compensated absences payable	76,226	8,922			85,148	
	Total	$ 10,843,990	8,922	629,722	(25,000)	10,198,190	656,644

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 bonds, Series 2000	Varies	09-01-2000	09-01-20	$ 5,435,000	4,755,000
Total				$ 5,435,000	4,755,000

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

Year Ending June 30	Principal	Interest	Total
2006	$ 195,000	245,005	440,005
2007	220,000	230,480	450,480
2008	220,000	215,080	435,080
2009	230,000	200,940	430,940
2010	240,000	188,500	428,500
2011 - 2015	1,410,000	743,000	2,153,000
2016 - 2020	1,820,000	341,250	2,161,250
2021 - 2025	420,000	10,500	430,500
Total	$ 4,755,000	2,174,755	6,929,755

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 3% of property assessments as of October 1, 2004. This debt will be retired from the 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:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital improvement	Varies	03-01-98	03-01-18	$ 3,800,000	2,985,000
Total				$ 3,800,000	2,985,000

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

Year Ending June 30	Principal	Interest	Total
2006	$ 170,000	141,027	311,027
2007	180,000	131,040	311,040
2008	190,000	120,465	310,465
2009	200,000	109,825	309,825
2010	210,000	101,025	311,025
2011 - 2015	1,185,000	356,400	1,541,400
2016 - 2020	850,000	77,625	927,625
Total	$ 2,985,000	1,037,407	4,022,407

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 Debt Service Fund.

C. Limited Tax notes payable.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Limited Tax Notes, Series 2001	4.4 to 5.7	03-01-2001	03-01-2016	$ 1,925,000	1,710,000
Total				$ 1,925,000	1,710,000

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

Year Ending June 30		Principal	Interest	Total
2006	$	115,000	76,502	191,502
2007		125,000	69,948	194,948
2008		130,000	63,072	193,072
2009		140,000	57,873	197,873
2010		138,000	52,337	190,337
2011 - 2015		654,000	161,368	815,368
2016 - 2020		408,000	9,020	417,020
Total	$	1,710,000	490,120	2,200,120

This debt will be retired from the Debt Service Fund.

D. Obligations under energy efficiency lease.

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

Year Ending June 30		Principal	Interest and Maintenance Charges	Total
2006	$	171,802	29,478	201,280
2007		179,824	20,644	200,468
2008		189,094	11,374	200,468
2009		104,822	2,041	106,863
Total	$	645,542	63,537	709,079

An energy efficiency lease agreement dated October 8, 1998, was executed by and between the district, the lessee, and Bank of Yazoo City, the lessor.

The agreement authorized the borrowing of $1,568,272 for the purchase of energy efficiency equipment,

machinery, supplies building modifications and other energy saving items. Payments of the lease shall be made from the district maintenance fund and not exceed ten (10) years.

The district entered into this energy efficiency lease agreement under the authority of Section 31-7-14, Miss. Code Ann. (1972).

Upon written notice to the lessor, the lessee has the option of repaying the total amount due as set forth by the agreement.

This debt will be retired from the District Maintenance Fund.

E. Other Notes Payable (Asbestos Loan Payable).

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

Year Ending June 30		Principal	Interest	Total
2006	$	5,000		5,000
2007		5,000		5,000
2008		5,000		5,000
2009		2,500		2,500
Total	$	17,500	0	17,500

This debt will be retired from the District Maintenance Fund.

F. Compensated absences payable.

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

(7) Defined Benefit Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The 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 $1,163,410, $1,095,116 and $ 946,534, 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
2006	$	19,943
2007		19,943
2008		19,943
Total	$	59,829

(9) Deficit Fund Balance of Individual Funds.

A generic fund type listing of individual funds that have a deficit fund balance, including amounts of the deficit, is as follows:

Fund		Fund Balance
Families First	$	1,786
Building Fund Project		100,102

The deficit fund balances are not in violation of state law. These deficits could have been eliminated with a transfer from the District Maintenance Fund (General Fund).

(10) Risk Management.

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

Participation in Public Entity Risk Pool.

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 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.

YAZOO CITY MUNICIPAL SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

YAZOO CITY MUNICIPAL SCHOOL DISTRICT
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variances Positive (Negative)	
	Original	Final	(GAAP Basis)	Original to Final	Final to Actual
Revenues:					
Local sources	$ 2,203,055	2,411,368	1,572,766	208,313	(838,602)
State sources	10,811,804	10,812,841	11,844,618	1,037	1,031,777
Federal sources	81,177	81,177	113,206	0	32,029
Total Revenues	13,096,036	13,305,386	13,530,590	209,350	225,204
Expenditures:					
Instruction	6,896,737	7,957,432	7,820,789	(1,060,695)	136,643
Support services		3,792,304	3,695,472	(3,792,304)	96,832
Noninstructional services	3,745,671	4,150	4,150	3,741,521	0
Debt service:					
Principal	2,500	192,916	174,722	(190,416)	18,194
Interest		8,703	25,746	(8,703)	(17,043)
Total Expenditures	10,644,908	11,955,505	11,720,879	(1,310,597)	234,626
Excess (Deficiency) of Revenues over Expenditures	2,451,128	1,349,881	1,809,711	(1,101,247)	459,830
Other Financing Sources (Uses):					
Insurance loss recoveries	3,853			(3,853)	0
Sale of equipment			900	0	900
Operating transfers in	768,046	768,046	967,910	0	199,864
Operating transfers out	(1,622,655)	(1,622,655)	(1,426,765)	0	195,890
Total Other Financing Sources (Uses)	(850,756)	(854,609)	(457,955)	(3,853)	396,654
				0	0
Net Change in Fund Balances	1,600,372	495,272	1,351,756	(1,105,100)	856,484
Fund Balances:					
July 1, 2004	4,038,630	1,004,762	1,004,762	(3,033,868)	0
Prior period adjustments	75,000	75,000		0	(75,000)
July 1, 2004, as restated	4,113,630	1,079,762	1,004,762	(3,033,868)	(75,000)
Increase (Decrease) in reserve for inventory				0	0
June 30, 2005	$ 5,714,002	1,575,034	2,356,518	(4,138,968)	781,484

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

YAZOO CITY MUNICIPAL SCHOOL DISTRICT
Budgetary Comparison Schedule
Food Service
For the Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variances Positive (Negative)	
	Original	Final	(GAAP Basis)	Original to Final	Final to Actual
Revenues:					
Local sources	$ 185,818	185,818	185,711	0	(107)
State sources	9,040	9,040	7,987	0	(1,053)
Federal sources	1,465,322	1,465,322	1,382,893	0	(82,429)
Total Revenues	1,660,180	1,660,180	1,576,591	0	(83,589)
Expenditures:					
Support services	149,196	149,196	127,148	0	22,048
Noninstructional services	1,518,509	1,518,509	1,324,744	0	193,765
Total Expenditures	1,667,705	1,667,705	1,451,892	0	215,813
Excess (Deficiency) of Revenues over Expenditures	(7,525)	(7,525)	124,699	0	132,224
Other Financing Sources (Uses):					
Operating transfers out			(130,602)	0	(130,602)
Total Other Financing Sources (Uses)	0	0	(130,602)	0	(130,602)
Net Change in Fund Balances	(7,525)	(7,525)	(5,903)	0	1,622
Fund Balances:					
July 1, 2004	226,932	676,924	676,924	449,992	0
Prior period adjustments				0	0
July 1, 2004, as restated	226,932	676,924	676,924	449,992	0
Increase (Decrease) in reserve for inventory		(5,390)	(5,390)	(5,390)	0
June 30, 2005	$ 219,407	664,009	665,631	444,602	1,622

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

YAZOO CITY MUNICIPAL SCHOOL DISTRICT
Budgetary Comparison Schedule
MS Reading First Program
For the Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variances Positive (Negative)	
	Original	Final	(GAAP Basis)	Original to Final	Final to Actual
Revenues:					
Federal sources	$ 633,469	633,469	545,581	0	(87,888)
Total Revenues	633,469	633,469	545,581	0	(87,888)
Expenditures:					
Instruction	449,198	449,198	283,713	0	165,485
Support services	326,090	326,090	260,106	0	65,984
Noninstructional services	16,175	16,175	10,918	0	5,257
Total Expenditures	791,463	791,463	554,737	0	236,726
Excess (Deficiency) of Revenues over Expenditures	(157,994)	(157,994)	(9,156)	0	148,838
Other Financing Sources (Uses):					
Operating transfers out	(10,692)	(10,692)	(5,319)	0	5,373
Total Other Financing Sources (Uses)	(10,692)	(10,692)	(5,319)	0	5,373
				0	0
Net Change in Fund Balances	(168,686)	(168,686)	(14,475)	0	154,211
Fund Balances:					
July 1, 2004			14,475	0	14,475
Prior period adjustments				0	0
July 1, 2004, as restated	0	0	14,475	0	14,475
Increase (Decrease) in reserve for inventory				0	0
Residual equity transfer in (out)				0	0
June 30, 2005	$ (168,686)	(168,686)	0	0	168,686

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

YAZOO CITY MUNICIPAL SCHOOL DISTRICT

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

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 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.

YAZOO CITY MUNICIPAL SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

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

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
U.S. Department of Agriculture		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	$ 104,180
Child nutrition cluster:		
School breakfast program	10.553	355,186
National school lunch program	10.555	917,783
Special milk program for children	10.556	5,744
Summer food service program for children	10.559	5,648
Total child nutrition cluster		1,284,361
Total U.S. Department of Agriculture		1,388,541
U.S. Department of Defense		
Direct program:		
Reserve Officers' Training Corps	12.XXX	49,185
Total U.S. Department of Defense		49,185
Federal Communications Commission		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.XXX	57,621
Total Federal Communications Commission		57,621
U.S. Department of Education		
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	1,765,353
Vocational education - basic grants to states	84.048	75,516
Safe and drug-free schools and communities - state grants	84.186	41,450
Education for homeless children and youth	84.196	14,648
Twenty-first century community learning centers	84.287	125,043
State grants for innovative programs	84.298	16,698
Education technology state grants	84.318	70,375
Teacher quality enhancement grants	84.336	5,000
Transaction to teaching	84.350	1,400
Reading first state grants	84.357	558,728
Rural education	84.358	127,346
Improving teacher quality - state grants	84.367	463,451
Grants for state assessments and related activities	84.369	81
Total		3,265,089
Special education cluster:		
Special education - grants to states	84.027	435,710
Special education - preschool grants	84.173	18,236
Total special education cluster		453,946
Total passed-through Mississippi Department of Education		3,719,035
Total U.S. Department of Education		3,719,035
U.S. Department of Health and Human Services		
Passed-through Mississippi Department of Health and Human Services:		
Temporary assistance for needy families	93.558	170,098
Total U.S. Department of Health and Human Services		170,098
Total for All Federal Awards		$ 5,384,480

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures

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.

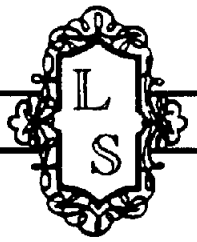
Yazoo City Municipal School District
Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
For the Year Ended June 30, 2005

Expenditures		Total	Instruction	Administrative	Other
Salaries and fringe benefits	$	14,056,692	9,382,437	1,619,352	3,054,903
Other		4,984,654	719,154	242,713	4,022,787
Total	$	19,041,346	10,101,591	1,862,065	7,077,690
Total number of students *		2,578			
Cost per student	$	7,386	3,918	722	2,745

YAZOO CITY MUNICIPAL SCHOOL DISTRICT

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

(601) 981-5707



LYLES AND SINCLAIR

CERTIFIED PUBLIC ACCOUNTANTS

P. O. BOX 11625 • JACKSON, MISSISSIPPI 39283-1625

MARY LYLES, CPA, MPA

TRACEY SINCLAIR, CPA

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*

Superintendent and School Board
Yazoo City Municipal School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Yazoo City Municipal School District as of and for the year ended June 30, 2005, which collectively comprise the Yazoo City Municipal School District's basic financial statements and have issued our report thereon dated July 19, 2007. 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the school district's ability to initiate, record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the Schedule of Findings and Questioned Costs as Findings 05-1 and 05-2.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described in the findings referred to above, we consider Finding 05-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the school district in a separate letter dated July 19, 2007, which is included in this report.

MEMBER:
American Institute of CPA's, Mississippi Society of CPA's, and Mississippi Association of Black CPA's

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.

Lyles and Sinclair, PLLC

Lyles and Sinclair, PLLC

July 19, 2007

(601) 981-5707

LYLES AND SINCLAIR

CERTIFIED PUBLIC ACCOUNTANTS

P. O. BOX 11625 • JACKSON, MISSISSIPPI 39283-1625

MARY LYLES, CPA, MPA

TRACEY SINCLAIR, CPA

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

Superintendent and School Board
Yazoo City Municipal School District

Compliance

We have audited the compliance of the Yazoo City 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 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, Yazoo City 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 Yazoo City 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 our audit, we considered the school district's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our 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. We did not note any matters involving internal control over compliance and its operation that we consider to be material weaknesses.

MEMBER:
American Institute of CPA's, Mississippi Society of CPA's, and Mississippi Association of Black CPA's

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.

Lyles and Sinclair, PLLC

Lyles and Sinclair, PLLC

July 19, 2007

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

(601) 981-5707

LYLES AND SINCLAIR

CERTIFIED PUBLIC ACCOUNTANTS

P. O. BOX 11625 • JACKSON, MISSISSIPPI 39283-1625

MARY LYLES, CPA, MPA TRACEY SINCLAIR, CPA

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

Superintendent and School Board
Yazoo City Municipal School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Yazoo City Municipal School District as of and for the year ended June 30, 2005, which collectively comprise Yazoo City Municipal School District's basic financial statements and have issued our report thereon dated July 19, 2007. 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), 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 $69,162 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 disclosed the following immaterial instances of noncompliance with other state laws and regulations. Our findings and recommendations and your responses are as follows:

1. Finding

   Section 71-5-359, Miss. Code Ann. (1972), requires the school district to maintain at least two percent of applicable wages as a cash balance on hand for the unemployment compensation fund. The District's cash balance on hand for this fund at June 30, 2005, was below the required amount.

   Recommendation

   We recommend that the district comply with Section 71-5-359, Miss. Code Ann. (1972).

   School District's Response

   The unemployment compensation fund will be carefully examined to ensure compliance with Section 71-5-359, Miss. Code Ann. (1972).

MEMBER:
American Institute of CPA's, Mississippi Society of CPA's, and Mississippi Association of Black CPA's

2. Finding

Section 37-9-27, Miss. Code Ann. (1972), requires the school district to maintain surety bond coverage for the superintendent in the amount of $100,000. The superintendent's surety bond was only $50,000.

Recommendation

We recommend that the district obtain the appropriate amount of coverage for the superintendent.

School District's Response

The district has increased the bond coverage for the superintendent.

The Office of the State Auditor or a public accounting firm will review, on the subsequent year's audit engagement, the findings in this report to insure that corrective action has been taken.

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.

Lyles and Sinclair, PLLC

Lyles and Sinclair, PLLC

July 19, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YAZOO CITY 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 financial statements:	Unqualified
2.	Material noncompliance relating to the financial statements?	No
3.	Internal control over financial reporting:	
	a. Material weakness(es) identified?	Yes
	b. Reportable condition(s) identified that are not considered to be material weaknesses?	Yes

Federal Awards:

4.	Type of auditor's report issued on compliance for major federal programs:	Unqualified
5.	Internal control over major programs:	
	a. Material weakness(es) identified?	No
	b. 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. Federal programs identified as major programs:
   a. Child Nutrition Cluster
      CFDA # 10.553
      CFDA # 10.555
      CFDA # 10.556
      CFDA # 10.559

   b. Title I - grants to local education agencies
      CFDA # 84.010

   c. Special Education Cluster
      CFDA # 84.027
      CFDA # 84.173

   d. Reading First State Grants
      CFDA # 84.357

   e. 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?	No

10. Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____.315(b) of OMB Circular A-133? No

Section 2: Financial Statement Findings

Material Weakness

05-1. Finding

Funds were reported on the budget to actual exhibit that were not included on the statement of revenues and expenditures exhibit. Also, actual expenditures exceeded the budgeted expenditures for several funds. An effective internal control system consists of procedures to initiate, record, process, summarize and report financial transactions accurately. If all funds are not accurately reported, the financial statements could be materially misstated.

Recommendation

We recommend the district implement procedures to ensure that all funds are reported accurately.

Reportable Condition Not Considered to be Material Weaknesses

05-2. Finding

Interfund transfers recorded in the minutes did not agree with interfund transfers in the financial statements. Also, interfund transaction balances did not agree on the financial statements. In addition, one month the board minutes were not signed. An effective internal control system consists of procedures to initiate, record, process, summarize and report financial transactions accurately and in accordance with management's approval. Minutes are not official until signed and transactions in the financial statements should agree with those approved by the board. The financial statements could be misstated if interfund transactions are not recorded accurately.

Recommendation

We recommend the district implement procedures to ensure that all minutes are signed and that financial transactions reflect proper board approval. Interfund transactions should also be recorded accurately.

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.

CORRECTIVE ACTION PLAN

YAZOO CITY MUNICIPAL SCHOOL DISTRICT

1133 Calhoun Avenue
P. O. Box 127
Yazoo City, Mississippi 39194
Telephone 662 746-2125 • Facsimile (662) 746-5062

Rebecca T. Berry
Superintendent

John Deem
Assistant Superintendent

CORRECTIVE ACTION PLAN

As required by ___315(b) of OMB Circular A-133, the Yazoo City Municipal School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2005:

Finding	Corrective Action Plan Details	
05-1	a.	Name(s) of Contact Person(s) Responsible for Corrective Action: Bernita Washington, Business Manager Telephone (662) 746-2125
	B.	Corrective Action Planned: A comparison was made and determined that there were items not reflected on the budget to actual as to the statement of revenues and expenditures. The software company was notified and corrections were made. The budget will be reviewed and necessary amendments will be made according to the state law.
	C.	Anticipated Completion Date: This procedure will be implemented December 15, 2006
05-2	a.	Name(s) of Contact Person(s) Responsible for Corrective Action: Rebecca Turner-Berry, Superintendent Telephone (662) 746-2125
	b.	Corrective Action Planned: All board minutes will be signed by the Board President and carefully reviewed to ensure that financial statements are recorded accurately in the board minutes.
	c.	Anticipated Completion Date: This procedure will be implemented December 15, 2006