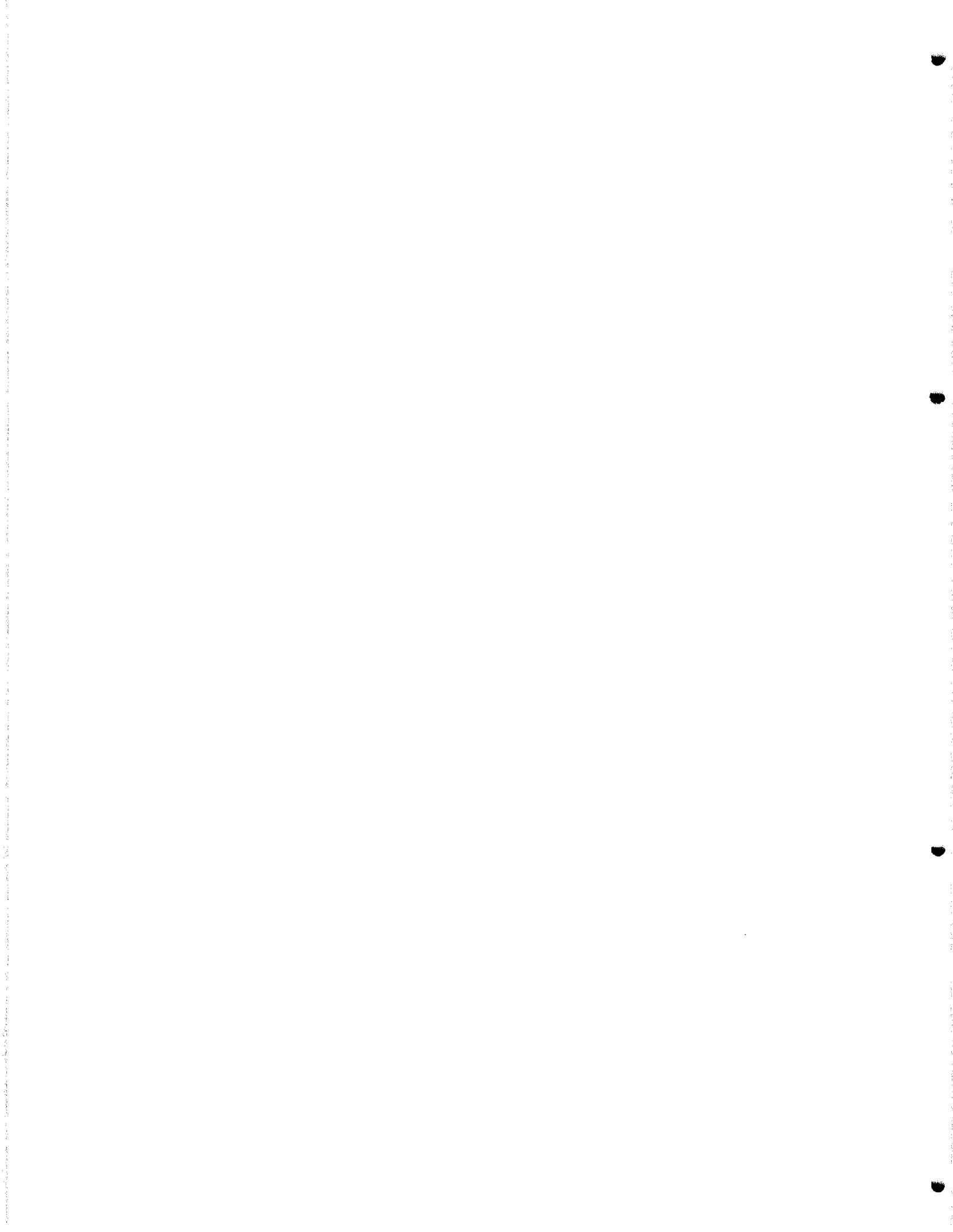




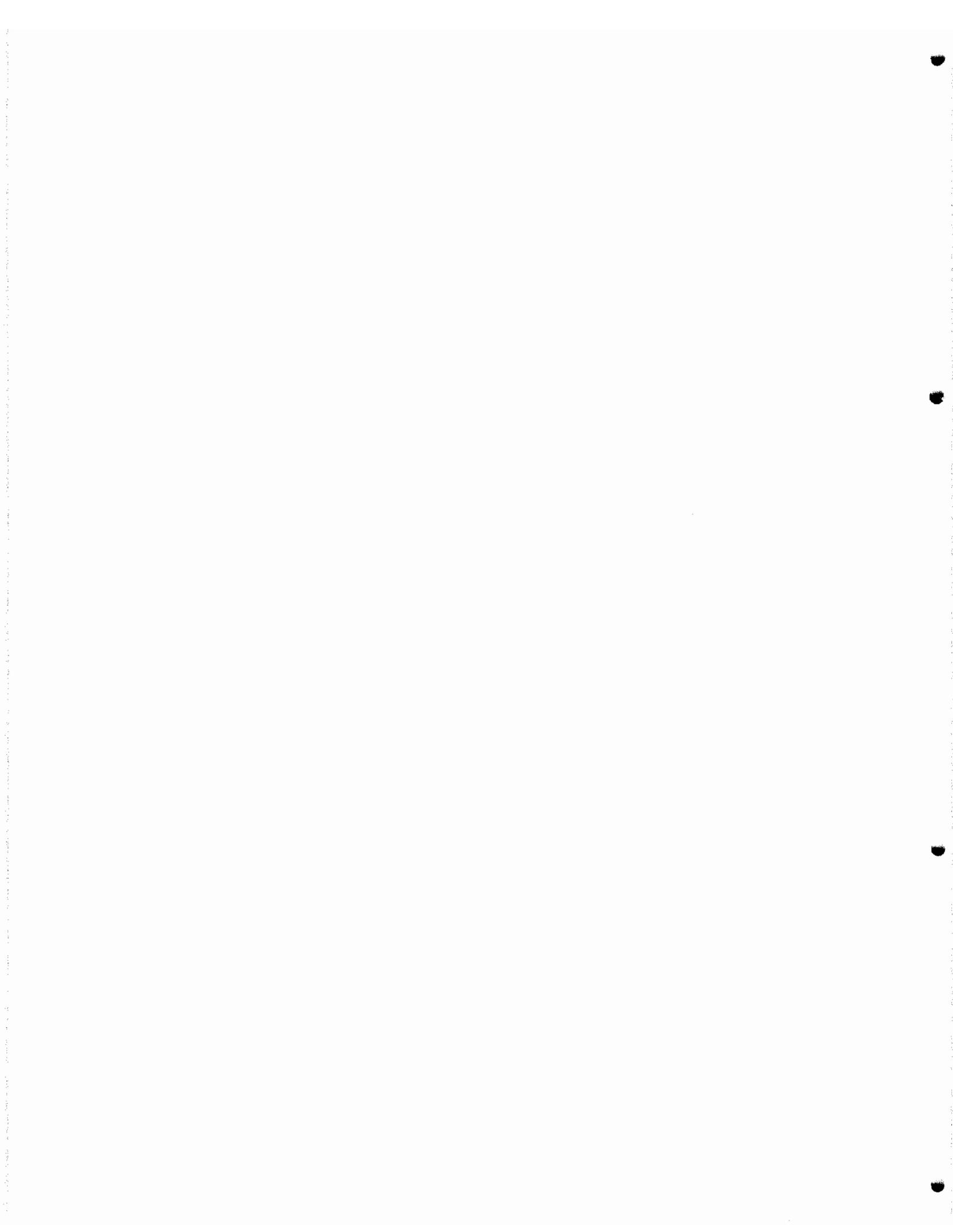
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BALDWIN SCHOOL DISTRICT
AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006



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

Superintendent and School Board
Baldwyn School District

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Baldwyn School District as of and for the year ended June 30, 2006, which collectively comprise the Baldwyn School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Baldwyn 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 Baldwyn School District at June 30, 2006, 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 September 19, 2007, on our consideration of the Baldwyn 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 and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8 and the Budgetary Comparison Schedules and corresponding notes on pages 33 through 37 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. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and we express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Baldwin 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. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Brammer Vanstony & Company, P.A.

September 19, 2007
Corinth, Mississippi

**BALDWIN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006**

This discussion and analysis of Baldwin School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2006. 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 selection is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

FINANCIAL HIGHLIGHTS

Total net assets increased \$326,024, which represents a 10.10% decrease from fiscal year 2005.

General revenues account for \$6,572,529 in revenue, or 82.53% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$1,391,651 or 17.47% of total revenues.

The District had \$7,638,156 in expenses; only \$1,391,651 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$6,572,529 were adequate to provide for these programs.

Among major funds, the General Fund had \$6,098,352 in revenues and \$5,729,896 in expenditures. The General Fund's fund balance decreased \$35,589 from the prior year.

Capital assets, net of accumulated depreciation, decreased by \$204,464.

Long-term debt decreased by \$268,960.

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, and interest on long-term liabilities.

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

**BALDWIN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006**

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 funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

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

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

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 major Special Revenue fund.

Additionally, a Schedule of Expenditures of Federal Awards is required by OMB Circular A-133 and can be found in 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 the District, assets exceeded liabilities by \$3,552,756 as of June 30, 2006.

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

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

**BALDWIN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006**

Table 1 presents a summary of the District's net assets for the fiscal year ended June 30, 2006, compared to June 30, 2005.

**Table 1
Condensed Statement of Net Assets**

	2006	2005	Increase (Decrease)	Percent Increase (Decrease)
Current Assets	\$ 1,347,989	\$ 1,087,943	\$ 260,046	23.90%
Capital Assets, Net	<u>6,895,852</u>	<u>7,100,316</u>	<u>(204,464)</u>	-2.88%
Total Assets	<u>8,243,841</u>	<u>8,188,259</u>	<u>55,582</u>	0.68%
Current Liabilities	73,947	133,488	(59,541)	-44.60%
Long-Term Debt Outstanding	<u>4,617,138</u>	<u>4,886,098</u>	<u>(268,960)</u>	-5.50%
Total Liabilities	<u>4,691,085</u>	<u>5,019,586</u>	<u>(328,501)</u>	-6.54%
Net Assets:				
Invested in Capital Assets, Net of Related Debt	2,380,852	2,270,316	110,536	4.87%
Restricted	799,563	502,445	297,118	59.13%
Unrestricted	<u>372,341</u>	<u>395,912</u>	<u>(23,571)</u>	-5.95%
Total Net Assets	<u>\$ 3,552,756</u>	<u>\$ 3,168,673</u>	<u>\$ 384,083</u>	12.12%

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2006, were \$7,964,180. The total cost of all programs and services was \$7,638,156. Table 2 presents a summary of the changes in net assets for the fiscal year ended June 30, 2006, compared to June 30, 2005:

Changes in Net Assets

	2006	2005	Increase (Decrease)	Percent Increase (Decrease)
Revenues:				
Program Revenues				
Charges for Services	\$ 101,916	\$ 100,121	\$ 1,795	1.79%
Operating Grants	1,289,735	1,118,408	171,327	15.32%
General Revenues				
Property Taxes	1,766,564	1,583,830	182,734	11.54%
Grants and Contributions not Restricted	4,441,672	4,309,954	131,718	3.06%
Other	<u>364,293</u>	<u>144,484</u>	<u>219,809</u>	152.13%
Total Revenues	<u>7,964,180</u>	<u>7,256,797</u>	<u>707,383</u>	9.75%
Expenses:				
Instruction	4,537,238	3,939,934	597,304	15.16%
Support Services	2,377,182	2,453,332	(76,150)	-3.10%
Non-Instructional	510,526	489,805	20,721	4.23%
Interest on Long-Term Liabilities	<u>213,210</u>	<u>226,885</u>	<u>(13,675)</u>	-6.03%
Total Expenses	<u>7,638,156</u>	<u>7,109,956</u>	<u>528,200</u>	7.43%
Increase (Decrease) in Net Assets	<u>\$ 326,024</u>	<u>\$ 146,841</u>	<u>\$ 179,183</u>	122.03%

**BALDWIN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006**

Governmental activities. The following table presents the cost of four 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.

**Table 3
Net Cost of Governmental Activities**

	Total Expenses		Total	Net (Expense) Revenue		Total
	2006	2005	Percentage Change	2006	2005	Percentage Change
Instruction	\$ 4,537,238	\$ 3,939,934	15.16%	\$ (3,948,799)	\$ (3,607,212)	-9.47%
Support Services	2,377,182	2,453,332	-3.10%	(2,038,512)	(2,047,439)	0.44%
Non-Instructional	510,526	489,805	4.23%	(45,984)	(9,891)	-364.91%
Interest on						
Long-Term Liabilities	<u>213,210</u>	<u>226,885</u>	-6.03%	<u>(213,210)</u>	<u>(226,885)</u>	6.03%
Total Expenses	\$ <u>7,638,156</u>	\$ <u>7,109,956</u>	7.43%	\$ <u>(6,246,505)</u>	\$ <u>(5,891,427)</u>	-6.03%

Net cost of governmental activities \$6,246,505 was financed by general revenue, which is made up of primarily property and privilege taxes of \$1,766,564 and state revenue of \$4,389,260.

Investment earnings accounted for \$33,735 of general revenues.

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, outflow 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 \$1,299,626, an increase of \$258,931. \$609,005 or 46.86% 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 \$690,621 or 53.14% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was \$35,589. The fund balance of Other Governmental Funds showed a decrease of \$15,330.

**BALDWIN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006**

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget. Significant changes are noted below.

General Fund

The General Fund had no major increases or decreases to total budgeted revenues or expenditures. However, the school district did reallocate a significant amount from support services to instruction.

Major Special Revenue Funds

All major Special Revenue funds were adjusted to reflect changes in allocations from the Mississippi Department of Education. The final allocations to the District were not known until after the original budget was adopted.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2006, the District's total capital assets were \$9,054,566, including land, school buildings, buses, other school vehicles, and furniture and equipment. This amount represents no increase or decrease from the previous year. Total accumulated depreciation as of June 30, 2006, was \$2,158,714 and total depreciation expense for the year was \$204,464, resulting in total net assets of \$6,895,852.

Additional information of the District's capital assets can be found in this report. Table 4 shows fiscal year ended June 30, 2006, as compared to fiscal year ended June 30, 2005.

**Table 4
Capital Assets at June 30, 2006 and 2005 (Net of Depreciation)**

	2006	2005	Increase (Decrease)	Percent Increase (Decrease)
Land	\$ 42,149	\$ 42,149	\$ -	0.00%
Buildings	6,307,702	6,458,618	(150,916)	-2.34%
Building Improvements	50,487	53,728	(3,241)	-6.03%
Improvements other than Buildings	269,038	281,638	(12,600)	-4.47%
Mobile Equipment	218,196	253,572	(35,376)	-13.95%
Furniture and Equipment	8,280	10,611	(2,331)	-21.97%
Totals	\$ 6,895,852	\$ 7,100,316	\$ (204,464)	-2.88%

**BALDWIN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006**

Debt Administration. At June 30, 2006, the District had \$4,617,138 in long-term debt outstanding, of which \$327,202 is due within one year.

Table 5 shows fiscal year ended June 30, 2006, as compared to fiscal year ended June 30, 2005:

**Table 5
Long-Term Debt Outstanding at June 30, 2006 and 2005**

	2006	2005	Increase (Decrease)	Percent Increase (Decrease)
General Obligation Bonds Payable	\$ 2,865,000	\$ 3,060,000	\$ (195,000)	-6.37%
Limited Obligation Bonds Payable	1,440,000	1,525,000	(85,000)	-5.57%
Three Mill Notes Payable	210,000	245,000	(35,000)	-14.29%
Obligations Under Energy Efficiency Lease	38,815	-	38,815	100.00%
Compensated Absences Payable	63,323	56,098	7,225	12.88%
Totals	\$ 4,617,138	\$ 4,886,098	\$ (268,960)	-5.50%

CURRENT ISSUES

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

The District has committed itself to financial excellence for many years. The millage rate has not changed significantly for the 2006-2007 year. The school district plans to continue its sound fiscal management to meet the challenges of the future.

The latest enrollment figures indicate that student enrollment in the District will remain steady. Therefore, no decrease in funds for the following year is expected.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Baldwin School District by writing to 107 West Main Street, Baldwin, MS 38824, or by telephone at (662) 365-1000.

Exhibit A

**BALDWIN SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006**

	<u>Governmental Activities</u>
ASSETS	
Cash and Cash Equivalents	\$ 955,466
Due From Other Governments	264,091
Inventories and Prepaid Items	13,128
Deferred Charges	34,365
Restricted Assets	80,939
Capital Assets, not being Depreciated	
Land	42,149
Capital Assets, Net of Accumulated Depreciation	
Buildings	6,307,702
Building Improvements	50,487
Improvements other than Buildings	269,038
Mobile Equipment	218,196
Furniture and Equipment	<u>8,280</u>
Total Assets	<u>8,243,841</u>
LIABILITIES	
Accounts Payable and Accrued Liabilities	13,013
Deferred Revenue	985
Interest Payable on Long Term Liabilities	59,949
Long-Term Liabilities (due within one year)	
Capital Related Liabilities	320,000
Non-Capital Liabilities	7,202
Long-Term Liabilities (due beyond one year)	
Capital Related Liabilities	4,195,000
Non-Capital Liabilities	<u>94,936</u>
Total Liabilities	<u>4,691,085</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	2,380,852
Restricted Net Assets:	
Capital Improvements	450,000
School-Based Activities	147,654
Debt Service	180,153
Unemployment Benefits	21,756
Unrestricted	<u>372,341</u>
Total Net Assets	<u>\$ 3,552,756</u>

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

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**BALDWIN SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006**

Functions/Programs	Expenses	Program Revenues			Total	Net (Expense) Revenue and Changes in Net Assets Primary Government Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
Governmental Activities:						
Instruction	\$ 4,537,238	\$ -	\$ 588,439	\$ -	\$ (3,948,799)	
Support Services	2,377,182	-	338,670	-	(2,038,512)	
Non-Instructional Services	510,526	101,916	362,626	-	(45,984)	
Interest on Long-Term Liabilities	213,210	-	-	-	(213,210)	
Total Governmental Activities	\$ 7,638,156	\$ 101,916	\$ 1,289,735	\$ -	(6,246,505)	

General Revenues

Taxes:

General Purpose Levies	1,402,349
Debt Service Levies	364,215
Unrestricted Grants and Contributions	
State	4,389,260
Federal	52,412
Unrestricted Investment Earnings	33,735
Other Revenues	330,558

Total General Revenues

6,572,529

Change in Net Assets

326,024

Net Assets - Beginning	3,168,673
Prior Period Adjustments (Note 9)	58,059
Net Assets - Beginning, as Restated	3,226,732
Net Assets-Ending	\$ 3,552,756

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

**BALDWIN SCHOOL DISTRICT
 COMBINED BALANCE SHEET - GOVERNMENTAL FUNDS
 JUNE 30, 2006**

	Major Funds			
	General Fund	Title I Fund	Title II-Teacher Principal Training Fund	Emerg/Impact Aid-Displaced Students Fund
ASSETS				
Cash and Cash Equivalents	\$ 311,949	\$ -	\$ -	\$ -
Investments	-	-	-	-
Due from Other Governments	66,752	48,469	18,222	33,710
Due From Other Funds	108,791	-	-	-
Inventories and Prepaid Items	-	-	-	-
Total Assets	<u>487,492</u>	<u>48,469</u>	<u>18,222</u>	<u>33,710</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts Payable and Accrued Liabilities	\$ 13,013	\$ -	\$ -	\$ -
Deferred Revenue	-	-	-	-
Due To Other Funds	-	48,469	18,222	33,710
Total Liabilities	<u>13,013</u>	<u>48,469</u>	<u>18,222</u>	<u>33,710</u>
Fund Balances				
Reserved for:				
Inventory	-	-	-	-
Capital Projects	-	-	-	-
Debt Service	-	-	-	-
Unemployment	-	-	-	-
Unreserved:				
Undesignated, Reported in:				
Special Revenue Funds	-	-	-	-
General Fund	474,479	-	-	-
Total Fund Balances	<u>474,479</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities and Fund Balances	<u>\$ 487,492</u>	<u>\$ 48,469</u>	<u>\$ 18,222</u>	<u>\$ 33,710</u>

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

Exhibit C

Major Funds (Continued)			
Bldgs & Grounds Rep & Renov Fund	MAEP Retirement Fund	Other Governmental Funds	Total Governmental Funds
\$ 450,000	\$ -	\$ 193,517	\$ 955,466
-	80,939	-	80,939
-	81,559	15,379	264,091
-	-	-	108,791
-	-	13,128	13,128
<u>450,000</u>	<u>162,498</u>	<u>222,024</u>	<u>1,422,415</u>
\$ -	\$ -	\$ -	\$ 13,013
-	-	985	985
-	-	8,390	108,791
-	-	9,375	122,789
-	-	13,128	13,128
450,000	-	-	450,000
-	162,498	43,239	205,737
-	-	21,756	21,756
-	-	134,526	134,526
-	-	-	474,479
<u>450,000</u>	<u>162,498</u>	<u>212,649</u>	<u>1,299,626</u>
<u>\$ 450,000</u>	<u>\$ 162,498</u>	<u>\$ 222,024</u>	<u>\$ 1,422,415</u>

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**BALDWIN SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
 THE STATEMENT OF NET ASSETS
 JUNE 30, 2006**

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 1,299,626
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 \$2,158,714	6,895,852
2. Long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds	(4,617,138)
3. Accrued interest on debt not due and payable in the current period and therefore, not reported in the funds	(59,949)
4. Issuance cost of long-term liabilities is reported as an expenditure in the governmental funds, but is deferred and amortized in the Statement of Net Assets	<u>34,365</u>
Total Net Assets - Governmental Activities	<u>\$ 3,552,756</u>

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

BALDWIN SCHOOL DISTRICT
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Major Funds			
	General Fund	Title I Fund	Title II-Teacher Principal Training Fund	Emerg/Impact Aid-Displaced Student Fund
Revenues				
Local Sources	\$ 1,757,847	\$ -	\$ -	\$ -
State Sources	4,288,093	-	-	-
Federal Sources	52,412	262,845	87,094	68,397
Total Revenues	<u>6,098,352</u>	<u>262,845</u>	<u>87,094</u>	<u>68,397</u>
Expenditures				
Instruction	3,683,991	118,522	81,289	9,188
Support Services	1,996,031	121,775	5,565	-
Non-Instructional Services	49,874	18,599	-	-
Debt Service:	-	-	-	-
Principal	-	-	-	-
Interest	-	-	-	-
Total Expenditures	<u>5,729,896</u>	<u>258,896</u>	<u>86,854</u>	<u>9,188</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>368,456</u>	<u>3,949</u>	<u>240</u>	<u>59,209</u>
Other Financing Sources (Uses)				
Inception of Energy Efficiency Lease	38,815	-	-	-
Operating Transfers In	75,197	-	-	-
Operating Transfers Out	(518,057)	(3,949)	(240)	(59,209)
Total Other Financing Sources (Uses)	<u>(404,045)</u>	<u>(3,949)</u>	<u>(240)</u>	<u>(59,209)</u>
Net Change in Fund Balances	<u>(35,589)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:				
July 1, 2005	452,009	-	-	-
Prior Period Adjustments (Note 9)	58,059	-	-	-
July 1, 2005, as Restated	510,068	-	-	-
Increase in Reserve for Inventory	-	-	-	-
June 30, 2006	<u>\$ 474,479</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

Major Funds (Continued)

Bldgs & Grnds Rep & Renov Fund	MAEP Retirement Funds	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 4,411	\$ 472,202	\$ 2,234,460
-	163,118	132,998	4,584,209
-	-	674,763	1,145,511
-	167,529	1,279,963	7,964,180
-	-	478,228	4,371,218
-	-	216,743	2,340,114
-	-	432,546	501,019
-	85,000	230,000	315,000
-	72,679	144,034	216,713
-	157,679	1,501,551	7,744,064
-	9,850	(221,588)	220,116
-	-	-	38,815
300,000	-	218,805	594,002
-	-	(12,547)	(594,002)
300,000	-	206,258	38,815
300,000	9,850	(15,330)	258,931
150,000	152,648	226,737	981,394
-	-	-	58,059
150,000	152,648	226,737	1,039,453
-	-	1,242	1,242
<u>\$ 450,000</u>	<u>\$ 162,498</u>	<u>\$ 212,649</u>	<u>\$ 1,299,626</u>

**BALDWIN SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
 EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ 258,931
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 purchase amounted to \$0 and the depreciation expense amounted to \$204,464	(204,464)
2. Payments 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	315,000
3. New debt issues are recorded as Other Sources in the governmental funds, but are added to long-term liabilities in the government-wide statements	(38,815)
4. Increase in compensated absences is not reported in the governmental funds, but it increases expenses in the Statement of Activities.	(7,225)
5. Governmental funds recognize interest on long-term debt when it becomes due, however, the Statement of Activities recognizes interest as it accrues regardless of when it become due	3,503
5. Increase in inventory is reported as an increase to fund balance in the governmental funds, but noninstructional expenditures are decreased in the Statement of Activities	1,242
6. Issuance cost for long-term liabilities is reported as an expenditure in the Governmental Funds, but is deferred and amortized over the life of the debt in the Government-Wide statements	<u>(2,148)</u>
Change in Net Assets of Governmental Activities	<u>\$ 326,024</u>

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

**BALDWIN SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2006**

	<u>Agency Funds</u>
ASSETS	
Cash and Cash Equivalents	\$ <u>232,105</u>
TOTAL ASSETS	\$ <u>232,105</u>
LIABILITIES	
Accounts Payable and Accrued Liabilities	\$ 210,166
Due to Club Funds	<u>21,939</u>
TOTAL LIABILITIES	\$ <u>232,105</u>

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

**BALDWIN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(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 Baldwin, Mississippi, 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 statements consist of government-wide statements, including a statement of net assets and a statement of activities; and fund financial statements, which provide a more detailed level of financial information.

Government-Wide Financial Statements:

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

The Statement of Net Assets presents the financial condition of the governmental activities of the school district at 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.

**BALDWIN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(1) Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

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 so 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 Special Revenue Fund is used to account for the federal resources used to provide remedial education.

Title II Teacher/Principal Training Fund - This Special Revenue Fund is used to account for the federal resources used improving instructional quality.

Emergency/Impact Aid - Displaced Students Fund - This Special Revenue Fund is used to account for the federal resources used for aid to school district in educating students displaced due to Hurricane Katrina.

Buildings and Grounds Repair and Renovation Fund - This Capital Projects Fund is used to account for resources used for major repairs and renovations planned by the district.

MAEP Note Retirement Fund - This Debt Service Fund is used to account for state resources pledged to repay debt obligations for limited obligation bonds payable.

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 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.

**BALDWIN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(1) Summary of Significant Accounting Policies (Continued)

FIDUCIARY FUNDS

C. Measurement Focus and Basis of Accounting (Continued)

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 operation.

D. Account Classifications

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

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 consist of amounts on deposit in demand accounts and certificates of deposit with original 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 three months when acquired.

Investments are reported at fair value.

H. Inventories and Prepaid Items

Donated inventories 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.

**BALDWIN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(1) Summary of Significant Accounting Policies (Continued)

I. Capital Assets

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

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

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

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

	Capitalization Policy	Estimated Useful Life
Land	\$ -	-
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

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 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 (4) for details for interfund transactions, including receivables and payables at year-end.

**BALDWIN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(1) Summary of Significant Accounting Policies (Continued)

L. Equity Classifications

Government-Wide Financial Statements:

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

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, 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 further split between designated and undesignated.

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

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

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

Reserved for debt service - An account that represents that portion of fund balance in the Debt Service Funds 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 counties and 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 authorities.

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.

**BALDWIN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(1) Summary of Significant Accounting Policies (Continued)

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. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* for the current fiscal year. This Statement requires governments to evaluate major events affecting capital assets to determine whether they are impaired. Such events include physical damage, changes in legal or environmental factors, technology changes or obsolescence, changes in the manner or duration of use and construction stoppage. Appropriate note disclosures have been incorporated to comply with the requirements of this standard.

(3) Cash and Cash Equivalents, Cash with Fiscal Agents and Investments

Cash and Cash Equivalents

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

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

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

**BALDWIN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(3) Cash and Cash Equivalents, Cash with Fiscal Agents and Investments (Continued)

The carrying amount of the school district's deposits with financial institutions in the governmental funds and fiduciary funds was \$955,466 and \$232,105, respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and cash equivalents \$955,466. The bank balance was \$1,394,265.

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 formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above the FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2006, none of the district's bank balance of \$1,394,265 was exposed to custodial credit risk.

Investments

As of June 30, 2006, the district had the following investments. All investments are in an internal investment pool.

<u>Investment Type</u>	<u>Maturities (in Years)</u>	<u>Fair Market Value</u>	<u>Rating</u>
Hancock Bank Treasury Money Market	Less than 1	\$ 80,939	AAA
Total Investments		<u>\$ 80,939</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, 2006, none of the district's investment balance was exposed to custodial credit risk.

Concentration of Credit Risk - Disclosures of investments by amount and issuer for any issuer that represents five percent (5.00%) or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2006, the district had no investments requiring such disclosure.

**BALDWIN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(4) Interfund Transactions and Balances

The following is a summary of interfund transactions and balances:

A. Due From/Due To Other Funds

	<u>Due From</u>	<u>Due To</u>
Governmental Funds		
General Fund	\$ 108,791	\$ -
Title I Fund	-	48,469
Teacher/Principal Training Fund	-	18,222
Emergency/Impact Aid - Displaced Students Fund	-	33,710
Other Governmental Funds	-	<u>8,390</u>
 Total All Funds	 <u>\$ 108,791</u>	 <u>\$ 108,791</u>

All due from/due to balances were to eliminate deficit cash balances.

A. Transfers In/Transfers Out

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds		
General Fund	\$ 75,197	\$ 518,057
Title I Fund	-	3,949
Title II - Teacher/Principal Training Fund	-	240
Emergency/Impact Aid - Displaced Students Fund	-	59,209
Building Repair and Renovation Fund	300,000	-
Other Governmental Funds	<u>218,805</u>	<u>12,547</u>
 Total All Funds	 <u>\$ 594,002</u>	 <u>\$ 594,002</u>

The transfers in to the General Fund were to transfers indirect costs of federal programs and reimburse the General Fund for expenditures made before federal fund became available. The transfer in to the Building Repair and Renovation Fund was to increase a reserve fund for repair and renovations of school grounds. The transfers in to the Other Governmental Funds were primarily to support the operation of the vocational fund.

**BALDWIN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(5) Capital Assets

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

	Balance 7/1/05	Additions	Retirements	Completed Construction	Balance 6/30/06
Non-Depreciable Capital Assets					
Land	42,149	-	-	-	42,149
Total Non-Depreciable Capital Assets	42,149	-	-	-	42,149
Depreciable Capital Assets:					
Buildings	7,803,836	-	-	-	7,803,836
Building Improvements	106,565	-	-	-	106,565
Improvements other than Buildings	314,991	-	-	-	314,991
Mobile Equipment	665,530	-	-	-	665,530
Furniture and Equipment	121,495	-	-	-	121,495
Total Depreciable Capital Assets	9,012,417	-	-	-	9,012,417
Less Accumulated Depreciation for:					
Buildings	1,345,218	150,916	-	-	1,496,134
Building Improvements	52,837	3,241	-	-	56,078
Improvements other than Buildings	33,353	12,600	-	-	45,953
Mobile Equipment	411,958	35,376	-	-	447,334
Furniture and Equipment	110,884	2,331	-	-	113,215
Total Accumulated Depreciation	1,954,250	204,464	-	-	2,158,714
Total Depreciable Capital Assets, Net	7,058,167	(204,464)	-	-	6,853,703
Governmental Activities Capital Assets, Net	\$ 7,100,316	\$ (204,464)	\$ -	\$ -	\$ 6,895,852

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 159,566
Support Services	34,149
Non-Instructional	10,749
Total Depreciation Expense	\$ 204,464

(6) Long-Term Liabilities

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

**BALDWIN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(6) Long-Term Liabilities (Continued)

	Balance 7/1/05	Additions	Reductions	Balance 6/30/06	Amounts Due Within One Year
A. General Obligation Bonds Payable	\$ 3,060,000	\$ -	\$ 195,000	\$ 2,865,000	\$ 195,000
B. Limited Obligation Bonds Payable	1,525,000	-	85,000	1,440,000	90,000
C. Three Mill Notes Payable	245,000	-	35,000	210,000	35,000
D. Obligations Under Energy Efficiency Lease	-	38,815	-	38,815	7,202
E. Compensated Absences Payable	56,098	7,225	-	63,323	-
Total	\$ 4,886,098	\$ 46,040	\$ 315,000	\$ 4,617,138	\$ 327,202

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 2001	Varies	6/1/2001	12/1/2012	\$ 1,230,000	\$ 795,000
General Obligation Bonds, Series 2002	Varies	7/1/2002	7/1/2022	\$ 2,295,000	\$ 2,070,000
Total				\$ 3,525,000	\$ 2,865,000

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

Year Ending June 30,	Principal	Interest	Total
2007	\$ 195,000	\$ 121,609	\$ 316,609
2008	210,000	112,708	322,708
2009	220,000	103,239	323,239
2010	230,000	93,340	323,340
2011	190,000	84,351	274,351
2012 - 2016	780,000	305,653	1,085,653
2017 - 2021	710,000	158,447	868,447
2021 - 2023	330,000	15,241	345,241
Total	\$ 2,865,000	\$ 994,588	\$ 3,859,588

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, 2006, the amount of outstanding bonded indebtedness was equal to 8.17% of property assessments as of October 31, 2005. This debt will be retired from the 2001 General Obligation Bonds Refinance Fund and the Debt Service 2002 Bond Issue Fund.

**BALDWIN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(6) Long-Term Liabilities (Continued)

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>
State Aid Capital Improvement, Series 1998	Varies	6/1/1998	6/1/2018	\$ 1,900,000	\$ 1,440,000
Total				\$ 1,900,000	\$ 1,440,000

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 90,000	\$ 68,389	\$ 158,389
2008	95,000	64,339	159,339
2009	100,000	60,064	160,064
2010	105,000	55,464	160,464
2011	110,000	50,607	160,607
2012 - 2016	635,000	169,656	804,656
2012 - 2018	305,000	22,425	327,425
Total	\$ 1,440,000	\$ 490,944	\$ 1,930,944

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 37-151-7, 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 Retirement Fund.

C. Three Mill Notes Payable.

Debt currently outstanding is 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>
Limited Tax Notes, Series 2001	4.50%	11/29/2001	12/1/2011	\$ 325,000	\$ 210,000
Total				\$ 325,000	\$ 210,000

**BALDWIN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(6) Long-Term Liabilities (Continued)

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

June 30,	Principal	Interest	Total
2007	\$ 35,000	\$ 9,581	\$ 44,581
2008	35,000	7,984	42,984
2009	35,000	6,405	41,405
2010	35,000	4,791	39,791
2011	35,000	3,194	38,194
2012	35,000	1,597	36,597
Total	<u>\$ 210,000</u>	<u>\$ 33,552</u>	<u>\$ 243,552</u>

This debt will be retired from the Three Mill Note Retirement Fund.

D. Obligations Under Energy Efficiency Lease.

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

June 30,	Principal	Interest	Total
2007	\$ 7,202	\$ 1,614	\$ 8,816
2008	7,329	1,487	8,816
2009	7,699	1,117	8,816
2010	8,088	728	8,816
2011	8,497	319	8,816
Total	<u>\$ 38,815</u>	<u>\$ 5,265</u>	<u>\$ 44,080</u>

An energy efficiency lease agreement dated May 23, 2006, was executed by and between the district (the lessee, and State of Mississippi (the lessor).

The agreement authorized the borrowing of up to \$40,000 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 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. 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.

**BALDWIN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(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 information may be obtained by writing to Public Employee Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201, or by calling (601) 359-3589 or 1-800 444-PERS.

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary and the school district is required to contribute at an actuarially determined rate. The rate for fiscal year ending June 30, 2006, was 10.75% of the 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 years ending June 30, 2006, 2005, and 2004, were \$442,104, \$399,314, and \$336,294, respectively, which equaled the required contributions 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. 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.

(9) Prior Period Adjustments/Exhibits

A summary of significant fund equity adjustments is as follows:

Exhibit B – Statement of Activities

<u>Explanation</u>	<u>Amount</u>
To correct a prior year error in recording activity funds	\$ 58,059
Total	<u>\$ 58,059</u>

Exhibit D – Statement of Revenues, Expenditures and Changes in Fund Balances

<u>Fund</u>	<u>Explanation</u>	<u>Amount</u>
Activity Fund	To correct a prior year error in recording activity funds	\$ 58,059
	Total	<u>\$ 58,059</u>

**BALDWIN SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
	Original	Final		Original to Final	Final to Actual
Revenue					
Local Sources	\$ 1,571,495	\$ 1,573,737	\$ 1,757,847	\$ 2,242	\$ 184,110
State Sources	4,265,518	4,288,093	4,288,093	22,575	-
Federal Sources	47,352	52,412	52,412	5,060	-
Total Revenues	5,884,365	5,914,242	6,098,352	29,877	184,110
Expenditures					
Instruction	3,330,315	3,541,369	3,683,991	(211,054)	(142,622)
Support Services	2,225,115	1,997,816	1,996,031	227,299	1,785
Non-Instructional Services	53,200	49,874	49,874	3,326	-
Total Expenditures	5,608,630	5,589,059	5,729,896	19,571	(140,837)
Excess (Deficiency) of Revenues over Expenditures	275,735	325,183	368,456	49,448	43,273
Other Financing Sources (Uses)					
Inception of Energy Efficiency Lease	-	38,815	38,815	38,815	-
Operating Transfers In	519,429	630,984	75,197	111,555	(555,787)
Operating Transfers Out	(716,473)	(1,070,963)	(518,057)	(354,490)	552,906
Total Other Financing Sources (Uses)	(197,044)	(401,164)	(404,045)	(204,120)	(2,881)
Net Change in Fund Balance	78,691	(75,981)	(35,589)	(154,672)	40,392
Fund Balances					
July 1, 2005	452,009	452,009	452,009	-	-
Prior Period Adjustments	58,059	58,059	58,059	-	-
July 1, 2005, as Restated	510,068	510,068	510,068	-	-
June 30, 2006	\$ 588,759	\$ 434,087	\$ 474,479	\$ (154,672)	\$ 40,392

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

**BALDWIN SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE FOR THE TITLE I FUND
 FOR THE YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
	Original	Final		Original to Final	Final to Actual
Revenue					
Federal Sources	\$ 284,553	\$ 262,845	\$ 262,845	\$ (21,708)	\$ -
Total Revenues	<u>284,553</u>	<u>262,845</u>	<u>262,845</u>	<u>(21,708)</u>	<u>-</u>
Expenditures					
Instruction	145,040	118,882	118,522	26,158	360
Support Services	112,132	122,043	121,775	(9,911)	268
Non-Instructional Services	<u>20,757</u>	<u>18,719</u>	<u>18,599</u>	<u>2,038</u>	<u>120</u>
Total Expenditures	<u>277,929</u>	<u>259,644</u>	<u>258,896</u>	<u>18,285</u>	<u>748</u>
Excess (Deficiency) of Revenues over Expenditures	<u>6,624</u>	<u>3,201</u>	<u>3,949</u>	<u>(3,423)</u>	<u>748</u>
Other Financing Sources (Uses)					
Operating Transfers Out	<u>(3,513)</u>	<u>(3,201)</u>	<u>(3,949)</u>	<u>312</u>	<u>(748)</u>
Total Other Financing Sources (Uses)	<u>(3,513)</u>	<u>(3,201)</u>	<u>(3,949)</u>	<u>312</u>	<u>(748)</u>
Net Change in Fund Balance	3,111	-	-	(3,111)	-
Fund Balances					
July 1, 2005	-	-	-	-	-
June 30, 2006	<u>\$ 3,111</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,111)</u>	<u>\$ -</u>

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

**BALDWIN SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE FOR THE TITLE II - TEACHER/PRINCIPAL TRAINING FUND
 FOR THE YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
	Original	Final		Original to Final	Final to Actual
Revenue					
Federal Sources	\$ 97,517	\$ 87,094	\$ 87,094	\$ (10,423)	\$ -
Total Revenues	<u>97,517</u>	<u>87,094</u>	<u>87,094</u>	<u>(10,423)</u>	<u>-</u>
Expenditures					
Instruction	81,286	81,529	81,289	(243)	240
Support Services	15,697	5,565	5,565	10,132	-
Total Expenditures	<u>96,983</u>	<u>87,094</u>	<u>86,854</u>	<u>9,889</u>	<u>240</u>
Excess (Deficiency) of Revenues over Expenditures	<u>534</u>	<u>-</u>	<u>240</u>	<u>(534)</u>	<u>240</u>
Other Financing Sources (Uses)					
Operating Transfers Out	-	-	(240)	-	(240)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(240)</u>	<u>-</u>	<u>(240)</u>
Net Change in Fund Balance	<u>534</u>	<u>-</u>	<u>-</u>	<u>(534)</u>	<u>-</u>
Fund Balances					
July 1, 2005	-	-	-	-	-
June 30, 2006	<u>\$ 534</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (534)</u>	<u>\$ -</u>

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

**BALDWIN SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE FOR THE
 EMERGENCY/IMPACT AID DISPLACED STUDENTS FUND
 FOR THE YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
	Original	Final		Original to Final	Final to Actual
Revenue					
Federal Sources	\$ -	\$ 68,397	\$ 68,397	\$ 68,397	\$ -
Total Revenues	-	68,397	68,397	68,397	-
Expenditures					
Instruction	-	9,188	9,188	(9,188)	-
Total Expenditures	-	9,188	9,188	(9,188)	-
Excess (Deficiency) of Revenues over Expenditures	-	59,209	59,209	59,209	-
Other Financing Sources (Uses)					
Operating Transfers Out	-	(59,209)	(59,209)	(59,209)	-
Total Other Financing Sources (Uses)	-	(59,209)	(59,209)	(59,209)	-
Net Change in Fund Balance	-	-	-	-	-
Fund Balances					
July 1, 2005	-	-	-	-	-
June 30, 2006	\$ -	\$ -	\$ -	\$ -	\$ -

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

**BALDWIN SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2006**

Budgetary Comparison Schedule

(1) Basis of Presentation

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

(2) Budget Amendments and Revisions

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

(3) Individual Fund Disclosures

The General Fund has an excess of expenditures over budget in the amount of \$140,837. This excess of excess of expenditures over budget is not in violation of state law since the excess resulted from auditors' adjustments.

The Emergency/Impact Aid - Displaced Students Fund was not budgeted originally, since this was a new fund to account for a grant that was applied for and received after the original budget was adopted.

**BALDWIN SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

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	\$ 26,622
Child Nutrition Cluster:		
School Breakfast Program	10.553	80,142
National School Lunch Program	10.555	252,230
Total Child Nutrition Cluster		<u>332,372</u>
Total Passed-Through Mississippi Department of Education		<u>358,994</u>
Total U.S. Department of Agriculture		<u>358,994</u>
Federal Communications Commission		
Administered through the Universal Service Administrative Company		
The Schools and Libraries Program of the Universal Service Fund	32.XXX	<u>27,559</u>
Total Federal Communications Commission		<u>27,559</u>
National Endowment for the Humanities		
Passed--Through the MS Humanities Council		
Promotion of the Humanities - Federal/State Partnerships	45.129	<u>903</u>
Total Federal Communications Commission		<u>903</u>
U.S. Department of Education		
Passed-Through Mississippi Department of Education:		
Special Education Cluster:		
Special Education - Grants to States	84.027	216,822
Special Education - Preschool Grants	84.173	<u>2,643</u>
Total Special Education Cluster		219,465
Title I Grants to Local Educational Agencies	84.010	262,844
Vocational Education - Basic Grants to States	84.048	-
Safe and Drug-Free Schools and Communities - State Grants	84.186	10,582
State Grants for Innovative Programs	84.298	1,546
Education Technology State Grants	84.318	5,600
Comprehensive School Reform Demonstration	84.332	65,000
Rural Education	84.358	30,453
Improving Teacher Quality - State Grants	84.367	87,095
Grants for State Assessments and Related Activities	84.369	5,879
Hurricane Education Recovery	84.938	<u>68,397</u>
Total		<u>756,861</u>
Total Passed-Through Mississippi Department of Education		<u>756,861</u>
Total U.S. Department of Education		<u>756,861</u>
Total for All Federal Awards		<u>\$ 1,144,317</u>

Notes to Schedule

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

**BALDWIN SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL, ADMINISTRATIVE AND OTHER EXPENDITURES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006**

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other Student Instructional Expenditures</u>	<u>General Administration</u>	<u>School Administration</u>	<u>Other</u>
Salaries and Fringe Benefits	\$ 5,424,036	\$ 4,294,272	\$ 299,991	\$ 311,127	\$ 518,646
Other	<u>2,320,028</u>	<u>726,007</u>	<u>75,690</u>	<u>51,041</u>	<u>1,467,290</u>
Total	<u>\$ 7,744,064</u>	<u>\$ 5,020,279</u>	<u>\$ 375,681</u>	<u>\$ 362,168</u>	<u>\$ 1,985,936</u>
Total number of students *	938				
Cost per student	\$ 8,256	\$ 5,352	\$ 401	\$ 386	\$ 2,117

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

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

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

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

Other - Includes all expenditure functions not included in Instruction or Administration categories.

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

BALDWIN SCHOOL DISTRICT

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**INDEPENDENT AUDITORS' 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
Baldwyn School District

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Baldwyn School District as of and for the year ended June 30, 2006, which collectively comprise Baldwyn School District's basic financial statements and have issued our report thereon dated September 19, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 stat consistent with the assertions of management in the financial statements. The reportable condition is described in the Schedule of Findings and Questioned costs as Finding 2006-01.

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 considered to be material weaknesses. However, the reportable condition described in the finding referred to above is considered to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Baldwin School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, which is described in the Schedule of Findings and Questioned Costs as Finding 2006-01. We also noted certain immaterial instances of noncompliance that we have reported to management of the school district in a separate letter dated September 19, 2007, which is included in this report.

This report is intended solely for the information and use of the school board, 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.

Brammer Vanstony & Company, P.A.

September 19, 2007
Corinth, Mississippi



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**INDEPENDENT AUDITORS' 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
Baldwyn School District

Compliance

We have audited the compliance of the Baldwyn 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, 2006. Baldwyn School District's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Baldwyn 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, Baldwyn 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, 2006.

Internal Control Over Compliance

The management of the Baldwyn 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 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.

This report is intended solely for the information and use of the school board, 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.

Brammer Vanstony & Company, P.A.

September 19, 2007
Corinth, Mississippi



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Superintendent and School Board
Baldwyn School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Baldwyn School District as of and for the year ended June 30, 2006, which collectively comprise Baldwyn School District's basic financial statements and have issued our report thereon dated September 19, 2007. We conducted our audit in accordance with auditing standards, generally accepted in the United States of America and 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 \$11,517 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 instances of noncompliance with other state laws and regulations. Our findings and recommendations and your responses are as follows:

Finding

Section 37-7-301(s), Miss. Code Ann. (1972), gives no authority to expend activity funds to repay debt. However, Activity Funds were used to pay a \$2,200 on a bank loan that appears to be in the name of an employee of the school district. A receipt from the bank shows the employee's name as the customer name. Also, notations on the documentation states "payment to bank - borrowed \$ to pay last years bills" and "payment on \$ borrowed to pay off 2004-2005 supplies." Furthermore, the minutes of the school board do not indicate any authorization for the borrowing of funds for such purposes.

Recommendation

We recommend the school district comply with Section 37-7-301(s), Miss. Code Ann. (1972), which sets forth allowable expenditures for Activity Funds. Also, the school district should demand repayment from the employee(s) responsible for this illegal expenditure.

Response

The school employee has repaid the District \$2,200 for the bank loan in question.

Auditors' Note:

We have reviewed copies of the check from the employee, the school's receipt and the bank-stamped deposit slip concerning this repayment.

Finding

During our audit, we noted several items paid from Activity Funds had no documentation.

Recommendation

The person responsible for signing checks should not pay any disbursements without sufficient, proper documentation.

Response

Immediately upon notification of the non-compliance, Baldwin School District took the necessary steps to correct this problem regarding the handling of the school's activity funds. As of March 1, 2007, all activity funds were being correctly reported with proper documentation on file.

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, 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.

Brammer Vanstony & Company, P.A.

September 19, 2007
Corinth, Mississippi

**BALDWIN SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

Section 1: Summary of Auditors' Results

Financial Statements:

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

Federal Awards:

- | | | |
|-----|--|-------------|
| 4. | Type of auditors' report issued on compliance for major federal programs: | Unqualified |
| 5. | Internal control over major programs: | |
| a. | Material weakness(es) identified? | No |
| b. | Reportable conditions identified that are not considered to be material weaknesses? | No |
| 6. | Any audit findings reported as required by Section __.510 (a) of OMB Circular A-133? | No |
| 7. | Federal programs identified as major programs: | |
| a. | Child Nutrition Cluster
CFDA #10.553
CFDA #10.555 | |
| 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 schedule of prior audit findings as discussed in Section __.315(b) of OMB Circular A-133? | No |

**BALDWIN SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

Section 2: Financial Statement Findings

Material Instance of Noncompliance and Reportable Condition that is also a Material Weakness

Finding 2006-01

Section 37-7-301(s), Miss. Code Ann. (1972), defines activity funds as those funds received by school officials...paid or collected to participate in any school activity, such activity being part of the school program and partially financed with public funds or supplemented by public funds. During our audit, we noted many that of the activities reported as Club Funds in the Agency Funds were actually Activity Funds that should have been reported in the General Funds because those activities were partially financed with public funds or supplemented by public funds. Some examples of the use of funds include normal classroom supplies (vocational supplies such as acetylene, oxygen, other shop supplies) or extra-curricular activities supplies (sheet music, athletic supplies, normal travel). Also comments made by district personnel when discussing this issue support the conclusion that these funds are activity funds.

Recommendation

We recommend the school district refer to the *Financial Accounting Manual for Mississippi Public School Districts* sections concerning Activity Funds to develop proper accounting procedures for their Activity Funds. All funds that should be accounted for as Activity Funds should be properly accounted for in the General Funds.

Response

Immediately upon notification of the non-compliance, Baldwin School District took the necessary steps to correct this problem regarding the handling of the school's activity funds. As of March 1, 2007, all activity funds were being correctly reported.

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.