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**COFFEEVILLE SCHOOL DISTRICT
AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

JUNE 30, 2006

COFFEEVILLE SCHOOL DISTRICT
TABLE OF CONTENTS

	PAGE
Independent Auditor's Report on the Basic Financial Statements and Supplemental Information	4
Management's Discussion and Analysis	7
Financial Statements:	
Statement of Net Assets - Exhibit A	17
Statement of Net Activities - Exhibit B	18
Balance Sheet Governmental Funds - Exhibit C	19
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets - Exhibit C-1	21
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds - Exhibit D	22
Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Net Activities - Exhibit D-1	24
Statement of Fiduciary Net Assets - Exhibit E	25
Notes to Financial Statements	26
Required Supplemental Information:	
Budgetary Comparison Schedule for the General Fund	46
Budgetary Comparison Schedule for the 16th Section Interest Fund	47

COFFEEVILLE SCHOOL DISTRICT
TABLE OF CONTENTS
-Continued-

	PAGE
Notes to the Required Supplementary Information	48
Supplemental Information:	
Schedule of Expenditures of Federal Awards	50
Schedule of Instructional, Administrative, and Other Expenditures - Governmental Funds	52
Reports on Compliance and Internal Control:	
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	54
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	56
Independent Auditor's Report on the Compliance with State Laws and Regulations	60
Schedule of Findings and Questioned Costs	63



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

Superintendent and School Board
Coffeeville School District

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Coffeeville School District as of and for the year ended June 30, 2006, which collectively comprise the Coffeeville School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Coffeeville 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 opinion.

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 Coffeeville School District, as of June 30, 2006, and the respective changes in financial position, thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated February 20, 2007, on our consideration of the Coffeerville 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 our audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 7 through 14 and the Budgetary Comparison Schedules and corresponding notes on pages 45 through 47 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 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 Coffeerville 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 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.

Young & Sanett

February 20, 2007

COFFEEVILLE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

COFFEEVILLE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2006

The discussion and analysis of the Coffeeville 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 section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

FINANCIAL HIGHLIGHTS

Total net assets decreased \$79,941, which represents 2.59% decrease from fiscal year 2005.

General revenues account for \$4,488,007 in revenue, or 69% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$1,995,802 or 31% of total revenues.

The District had \$6,563,750 in expenses; only \$1,995,802 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$4,488,007 were not adequate to provide for these programs. The District had sufficient reserve funds to cover the deficit.

Among major funds, the General Fund had \$4,272,523 in revenues and \$432,436 in other financing sources, \$4,245,502 in expenditures and \$570,493 in other financing uses. The General Fund's fund balance decreased \$111,036 over the prior year.

Capital assets, net of accumulated depreciation, decreased by \$185,262. This decrease was due primarily to the depreciation charge for the year.

Long-term debt decreased by \$60,560.

COFFEEVILLE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
-Continued-

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 16 and 17 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.

COFFEEVILLE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
-Continued-

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 20 and 23, respectively.

The District maintains individual governmental funds in accordance with the Financial Accounting Manual for Mississippi Public School Districts. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for all major funds.

All other non-major funds are combined together and presented in reports as other governmental funds.

The basic governmental fund financial statements can be found on pages 18 through 23 of this report.

COFFEEVILLE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
-Continued-

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 24.

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 25 through 43 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 major special revenue fund. This required supplementary information can be found on pages 45 through 47 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Circular A-133 and can be found on pages 49 through 50 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 the District, assets exceeded liabilities by \$3,010,063 as of June 30, 2006.

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

The following table presents a summary of the District's net assets for the fiscal year ended June 30, 2006 compared to 2005:

COFFEEVILLE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
-Continued-

	<u>2006</u>	<u>2005</u>	TOTAL DOLLAR <u>VARIANCE</u>	TOTAL PERCENTAGE <u>VARIANCE</u>
Current Assets	\$ 2,932,042	\$ 2,799,213	\$ 132,829	4.75%
Capital Assets, Net	<u>2,608,601</u>	<u>2,793,863</u>	<u>(185,262)</u>	<u>-6.63%</u>
Total Assets	<u>5,540,643</u>	<u>5,593,076</u>	<u>(52,433)</u>	<u>-0.94%</u>
Current Liabilities	312,580	224,512	88,068	39.23%
Long-Term Debt Outstanding	<u>2,218,000</u>	<u>2,278,560</u>	<u>(60,560)</u>	<u>-2.66%</u>
Total Liabilities	<u>2,530,580</u>	<u>2,503,072</u>	<u>27,508</u>	<u>1.10%</u>
Net Assets:				
Invested in Capital Assets, Net of Related Debt	501,343	563,863	(62,520)	-11.09%
Restricted	1,928,612	1,772,958	155,654	8.78%
Unrestricted	<u>580,108</u>	<u>753,183</u>	<u>(173,075)</u>	<u>-22.98%</u>
Total Net Assets	\$ <u>3,010,063</u>	\$ <u>3,090,004</u>	\$ <u>(79,941)</u>	<u>-2.59%</u>

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

- Increase in total current assets in the amount of \$132,829.
- The net decrease in net capital assets in the amount of \$185,262.
- Increase in current liabilities in the amount of \$88,068.
- Decrease in long-term debt in the amount of \$60,560.

CHANGES IN NET ASSETS. The District's total revenues for the fiscal year ended June 30, 2006, were \$6,483,809. The total cost of all programs and services was \$6,563,750. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2006:

COFFEEVILLE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
-Continued-

	<u>JUNE 30, 2006</u>	<u>JUNE 30, 2005</u>	<u>PERCENTAGE VARIANCE</u>
Revenues:			
Program Revenues:			
Charges for Services	\$ 173,582	\$ 136,739	26.94%
Operating Grants and Contributions	1,790,767	1,690,524	5.92%
Capital Grants and Contributions	31,453	0	100.00%
General Revenues:			
Property Taxes	996,968	959,633	3.89%
Grants & Contributions Not Restricted	3,295,795	3,190,079	3.31%
Other	195,244	204,324	- 4.44%
Total Revenues	<u>6,483,809</u>	<u>6,181,299</u>	<u>4.89%</u>
Expenses:			
Instruction	3,631,094	3,437,614	5.63%
Support Services	2,382,239	2,262,736	5.28%
Non-Instructional	486,996	411,724	18.28%
Sixteenth Section	4,368	59,147	-92.61%
Interest and Other Charges			
Related to Long-Term Liabilities	59,053	51,630	14.38%
Total Expenses	<u>6,563,750</u>	<u>6,222,851</u>	<u>5.48%</u>
Increase (Decrease) in Net Assets	(79,941)	(41,552)	192.39%
Net Assets, July 1, 2005	<u>3,090,004</u>	<u>3,131,556</u>	- 1.33%
Net Assets, June 30, 2006	<u>\$ 3,010,063</u>	<u>\$ 3,090,004</u>	- 2.59%

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

	<u>TOTAL EXPENSES</u>		<u>NET EXPENSE (REVENUE)</u>			
	<u>JUNE 30, 2005</u>	<u>JUNE 30, 2006</u>	TOTAL	TOTAL		TOTAL
			PERCENTAGE	PERCENTAGE		PERCENTAGE
			CHANGE	<u>JUNE 30, 2005</u>	<u>JUNE 30, 2006</u>	<u>2005-2006</u>
Instruction	\$ 3,437,614	\$ 3,631,094	5.62%	\$ 2,610,121	\$ 2,669,266	2.26%
Support Services	2,262,736	2,382,239	5.28%	1,688,760	1,829,095	8.31%
Non-Instructional	411,724	486,996	18.28%	(8,441)	12,190	144.00%
Sixteenth Section	59,147	4,368	-92.62%	53,518	(1,656)	-103.00%
Interest on Long-Term Liab.	51,630	59,053	14.37%	51,630	59,053	14.37%
Total Expenses	<u>\$ 6,222,851</u>	<u>\$ 6,563,750</u>	5.48%	<u>\$ 4,395,588</u>	<u>\$ 4,567,948</u>	3.92%

COFFEEVILLE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
-Continued-

Net cost of governmental activities, \$4,567,948, was financed by general revenue, which is made up of primarily property taxes of \$996,968, state revenues of \$3,225,891, federal revenues of \$69,904, sixteenth section sources of \$92,071 and other sources of \$38,922.

Investment earnings accounted for \$71,309 of funding.
The District lost \$7,058 on the disposal of assets.

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 \$2,633,829, an increase of \$43,846 due primarily to an increase in federal revenue. \$2,028,806 or 77% 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 \$605,023 or 23% is reserved or designated to indicate that these funds are not available for spending because they have 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 \$111,036. The fund balance of Other Governmental Funds showed a decrease in the amount of \$84,891. The other increase (decrease) in the fund balances for the other major funds were as follows:

<u>MAJOR FUND</u>	<u>INCREASE (DECREASE)</u>
16th Section Interest	\$ 128,920
QZAB Bonds	110,853

COFFEEVILLE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
-Continued-

BUDGETARY HIGHLIGHTS

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

Budget amounts for revenue from state sources was increased to reflect additional funding for Mississippi Adequate Education. The original budgeted amounts underestimated for potential cuts by the Mississippi legislature. This was done upon suggestion of the Mississippi Department of Education.

Budgeted amounts for facilities acquisition and construction expenditures were decreased due primarily to school construction being delayed until the next fiscal year.

A schedule showing the original and final budget amounts compared to the District's actual financial activity for the General Fund and other major special revenue funds 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 \$4,587,349, including land, school buildings, buses, other school vehicles and furniture and equipment. This amount represents a decrease of \$26,561 from the previous year. Total accumulated depreciation as of June 30, 2006, was \$1,978,748, resulting in total net assets of \$2,608,601. The total depreciation expense for the year was \$195,403.

Additional information of the District's capital assets can be found in Note 4 on page 37 of this report.

DEBT ADMINISTRATION. At June 30, 2006, the District had \$2,218,000 in MAEP general obligation bonds and other long-term debt outstanding, of which \$72,352 is due within one year.

The District maintains a AA- bond rating.

Additional information of the District's long-term debt can be found in Note 5 on page 38 of this report.

COFFEEVILLE SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
-Continued-

CURRENT ISSUES

The Coffeeville School District is financially stable. The District is proud of its community support of the public schools. The District has committed itself to financial excellence for many years. The District's system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

Enrollment for the 2005-06 year increased by 2.5% to 697 students. Enrollment should increase at approximately the same percentage for 2006-07.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have any questions about this report, contact the Superintendent's Office of the Coffeeville School District, 16849 Okahoma Street, Coffeeville, MS 38922.

COFFEEVILLE SCHOOL DISTRICT

FINANCIAL STATEMENTS

COFFEEVILLE SCHOOL DISTRICT
STATEMENT OF NET ASSETS - EXHIBIT A
June 30, 2006

	PRIMARY GOVERNMENT GOVERNMENTAL <u>ACTIVITIES</u>
ASSETS	
Cash and Cash Equivalents	\$ 2,167,835
Investments	488,824
Due from Other Governments	205,227
Other Receivables, Net	100
Inventories and Prepaid Items	24,399
Restricted Assets	45,657
Capital Assets, Not Being Depreciated:	
Land	19,078
Capital Assets, Net of Accumulated Depreciation:	
Buildings	2,109,489
Building Improvements	33,823
Mobile Equipment	252,668
Furniture and Equipment	193,543
TOTAL ASSETS	<u>5,540,643</u>
LIABILITIES	
Accounts Payable and Accrued Liabilities	298,213
Interest Payable on Long-term Liabilities	14,367
Long-Term Liabilities (Due within one year)	
Capital Related Liabilities	70,000
Non-capital Related Liabilities	2,352
Long-Term Liabilities (Due beyond one year)	
Capital Related Liabilities	2,095,000
Non-capital Related Liabilities	50,648
TOTAL LIABILITIES	<u>2,530,580</u>
NET ASSETS	
Investments in Capital Assets (Net of Related Debt)	443,601
Restricted Net Assets:	
Expendable:	
School - Based Activities	1,281,613
Debt Service	582,622
Unemployment Compensation	16,344
Forestry Improvements	2,376
Non-Expendable:	
Sixteenth Section	45,657
Unrestricted	637,850
TOTAL NET ASSETS	<u>3,010,063</u>

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

COFFEEVILLE SCHOOL DISTRICT
BALANCE SHEET GOVERNMENTAL FUNDS - EXHIBIT C
June 30, 2006

	16TH					TOTAL GOVERNMENTAL FUNDS	
	MAJOR FUNDS		SECTION		OTHER		
	GENERAL FUND	INTEREST FUND	QZAB BONDS FUND	GOVERNMENTAL FUND	GOVERNMENTAL FUND		GOVERNMENTAL FUNDS
ASSETS							
Cash and Cash Equivalents	\$ 741,549	\$ 1,141,453	\$ 8,134	\$ 322,356	\$ 2,213,492		
Investments	0	0	434,272	54,552	488,824		
Due from Other Governments	44,658	0	0	160,569	205,227		
Other Receivables	100	0	0	0	100		
Due from Other Funds	32,657	0	33,031	2,807	68,495		
Inventories and Prepaid Items	14,548	0	0	9,851	24,399		
Total Assets	<u>833,512</u>	<u>1,141,453</u>	<u>475,437</u>	<u>550,135</u>	<u>3,000,537</u>		
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts Payable and Accrued Liabilities	193,587	10,500	0	94,126	298,213		
Due to Other Funds	<u>6,817</u>	<u>0</u>	<u>0</u>	<u>61,678</u>	<u>68,495</u>		
Total Liabilities	<u>200,404</u>	<u>10,500</u>	<u>0</u>	<u>155,804</u>	<u>366,708</u>		

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

COFFEVILLE SCHOOL DISTRICT
BALANCE SHEET GOVERNMENTAL FUNDS - EXHIBIT C
-Continued-

	<u>MAJOR FUNDS</u>					TOTAL GOVERNMENTAL FUNDS
	GENERAL FUND	SECTION INTEREST FUND	OZAB BONDS FUND	OTHER GOVERNMENTAL FUNDS	OTHER GOVERNMENTAL FUNDS	
Fund Balances:						
Reserved for:						
Inventory and Prepaid Items	\$ 14,548	\$ 0	\$ 0	\$ 9,851	\$ 24,399	
Ad Valorem	47,606	0	0	0	47,606	
Unemployment Compensation	0	0	0	16,344	16,344	
Debt Service	0	0	475,437	38,861	514,298	
Forestry Improvements	0	0	0	2,376	2,376	
Unreserved, Reported In:						
General Fund	570,954	0	0	0	570,954	
Special Revenue Funds	<u>0</u>	<u>1,130,953</u>	<u>0</u>	<u>326,899</u>	<u>1,457,852</u>	
Total Fund Balances	<u>633,108</u>	<u>1,130,953</u>	<u>475,437</u>	<u>394,331</u>	<u>2,633,829</u>	
Total Liabilities and Fund Balances	<u>833,512</u>	<u>1,141,453</u>	<u>475,437</u>	<u>550,135</u>	<u>3,000,537</u>	

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

COFFEEVILLE SCHOOL DISTRICT
 RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
 THE STATEMENT OF NET ASSETS - EXHIBIT C-1
 June 30, 2006

Total Fund Balance - Governmental Funds	\$ <u>2,633,829</u>
Amounts Reported for Net Assets in the Statement of Net Assets are Different Because:	
Capital Assets are Used in Governmental Activities are not Financial Resources and Therefore are not Reported in the Funds:	
Capital Assets Net of Accumulated Depreciation as of 7-1-05	2,793,863
Plus Capital Outlay Expenditures made During Year	17,199
Less Depreciation Expense Recorded During Year	(195,403)
Less Net Book Value of Capital Assets Retired During Year	<u>(7,058)</u>
	<u>2,608,601</u>
Long-term Liabilities are not Due and Payable in the Current Period and Therefore are not Reported in the Funds, as follows	
Long-term Liabilities	(2,218,000)
Accrued Interest on Bonds	<u>(14,367)</u>
	<u>(2,232,367)</u>
Total Net Assets - Governmental Activities	<u>3,010,063</u>

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

COFFEEVILLE SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS - EXHIBIT D
 For the Year Ended June 30, 2006

	16TH					TOTAL
	GENERAL FUND	SECTION INTEREST FUND	OZAB BONDS FUND	OTHER GOVERNMENTAL FUNDS	GOVERNMENTAL FUNDS	GOVERNMENTAL FUNDS
REVENUES:						
Local Sources	\$ 1,062,516	\$ 169	\$ 21,411	\$ 138,786	\$ 1,222,882	
State Sources	3,140,103	0	0	320,715	3,460,818	
Federal Sources	69,904	0	0	1,587,292	1,657,196	
Sixteenth Section	<u>0</u>	<u>128,751</u>	<u>0</u>	<u>7,653</u>	<u>136,404</u>	
Total Revenues	<u>4,272,523</u>	<u>128,920</u>	<u>21,411</u>	<u>2,054,446</u>	<u>6,477,300</u>	
EXPENDITURES:						
Instruction	2,508,498	0	0	1,050,220	3,558,718	
Support Services	1,737,004	0	0	553,057	2,290,061	
Noninstructional Services	0	0	0	448,967	448,967	
Sixteenth Section	0	0	0	4,368	4,368	
Debt Service:						
Principal	0	0	0	65,000	65,000	
Interest	<u>0</u>	<u>0</u>	<u>0</u>	<u>59,967</u>	<u>59,967</u>	
Total Expenditures	<u>4,245,502</u>	<u>0</u>	<u>0</u>	<u>2,181,579</u>	<u>6,427,081</u>	
Excess (Deficiency) of Revenues Over Expenditures	<u>27,021</u>	<u>128,920</u>	<u>21,411</u>	<u>(127,133)</u>	<u>50,219</u>	

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

COFFEVILLE SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS - EXHIBIT D
 -Continued-

	MAJOR FUNDS					TOTAL GOVERNMENTAL FUNDS
	GENERAL FUND	SECTION INTEREST FUND	QZAB BONDS FUND	OTHER GOVERNMENTAL FUNDS	OTHER GOVERNMENTAL FUNDS	
OTHER FINANCING SOURCES (USES)						
Insurance Loss Recovery	\$ 13,567	\$ 0	\$ 0	\$ 0	\$ 0	\$ 13,567
Operating Transfers In	418,869	0	89,442	197,506	705,817	705,817
Operating Transfers Out	<u>(570,493)</u>	<u>0</u>	<u>0</u>	<u>(135,324)</u>	<u>(705,817)</u>	<u>(705,817)</u>
Total Other Financing Sources (Uses)	<u>(138,057)</u>	<u>0</u>	<u>89,442</u>	<u>62,182</u>	<u>13,567</u>	<u>13,567</u>
Net Change in Fund Balances	<u>(111,036)</u>	<u>128,920</u>	<u>110,853</u>	<u>(64,951)</u>	<u>63,786</u>	<u>63,786</u>
FUND BALANCES						
July 1, 2005	744,144	1,002,032	364,584	479,223	2,589,983	2,589,983
Increase (Decrease) in Reserve for Inventory	<u>0</u>	<u>0</u>	<u>0</u>	<u>(19,940)</u>	<u>(19,940)</u>	<u>(19,940)</u>
June 30, 2006	<u>633,108</u>	<u>1,130,952</u>	<u>475,437</u>	<u>394,332</u>	<u>2,633,829</u>	<u>2,633,829</u>

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

COFFEEVILLE SCHOOL DISTRICT
 RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
 EXPENDITURES AND CHANGES IN FUND BALANCES TO THE
 STATEMENT OF NET ACTIVITIES - EXHIBIT D-1
 For the Year Ended June 30, 2006

Net Change in Fund Balances - Governmental Funds \$ 63,786

Amounts Reported for Governmental Activities in
 the Statement of Activities are Different Because:

Capital Outlays are Reported as Expenditures in Governmental
 Funds but are not Reported as Expenses in the Statement
 of Activities. Instead, Costs Associated with Capital
 Assets are Capitalized in the Statement of Net Assets. 17,199

Depreciation is not an Expenditure in Governmental Funds but
 is an Expense of Allocating the Cost of Capital Assets Over
 Their Estimated Useful Lives in the Statement of Activities. (195,403)

Repayment of Debt Principal is an Expenditure in the Governmental
 Funds, but the Repayment Reduces Long-Term Liabilities in the
 Statement of Net Assets. 65,000

Under the Modified Accrual Basis of Accounting Used in the
 Governmental Funds, Expenditures are not Recognized for Transactions
 that are not Normally Paid with Expendable Available Financial
 Resources. However, in the Statement of Activities, Which is
 Presented on the Accrual Basis, Expenses and Liabilities are
 Reported Regardless of when Financial Resources are Available. In
 Addition, Interest on Long-Term Debt is Recognized Under the Modified
 Accrual Basis of Accounting when Due, Rather than as it Accrues. Thus,
 the Change in Net Assets Differs from the Change in Fund Balances by
 a Combination of the Following Items:

Compensated Absences Increase	(7,704)
Loss on Retirement of Capital Assets	(7,058)
Decrease in Reserve for Inventory	(19,940)
Compensated Absences Decreases	3,264
Accrued Interest on Bonds Decreases	<u>915</u>

Change in Net Assets of Governmental Activities (79,941)

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

COFFEEVILLE SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS - EXHIBIT E
June 30, 2006

	<u>AGENCY FUNDS</u>
ASSETS	
Cash and Cash Equivalents	\$ <u>83,160</u>
Total Assets	<u>83,160</u>
LIABILITIES	
Accounts Payable and Accrued Liabilities	\$ <u>83,160</u>
Total Liabilities	<u>83,160</u>

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

COFFEEVILLE 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 a "primary government." The school district is governed by a five (5) member board which each member was elected by the citizens of each defined county district.

B. Basis of Presentation.

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

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the school district as a whole. They include all funds of the reporting entity except for fiduciary funds, 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.

COFFEEVILLE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
-Continued-

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

COFFEEVILLE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
-Continued-

The school district reports the following major governmental funds:

General Fund - This fund 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.

Sixteenth Section Interest Fund - This fund is used to account for the proceeds of sale of timber and forest products that are legally restricted to expenditures for specified purposes.

QZAB Bonds Fund - This fund is used to account for the proceeds of state funds that are legally restricted to expenditures for specified purposes.

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

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.

COFFEEVILLE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
-Continued-

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 consist 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.

COFFEEVILLE SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 -Continued-

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.

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

I. Capital Assets.

Capital acquisition and construction are reflected as expenditures in the Government 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	\$ -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	*	*

COFFEEVILLE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
-Continued-

(*) 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 6 for detail.

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:

COFFEEVILLE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
-Continued-

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 government; 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 inventory and prepaid items - 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 unemployment compensation - An account that represents the fund balance of the unemployment compensation revolving fund which is legally restricted for the payment of unemployment benefits.

Reserved for ad valorem - An account used to record the ad valorem taxes collected in excess of legal limitation for the current fiscal year.

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

COFFEEVILLE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
-Continued-

Reserved for debt service - An account that represents the fund balance for Debt Service Fund resources which are legally restricted for the payment of General Long-term Debt principal and interest amounts maturing in future years.

M. Property Taxes.

Ad valorem property taxes are levied by the governing authority of the county on behalf of the school district based upon an order adopted by the school board of the school district requesting an ad valorem tax effort in dollars. Since the taxes are not levied and collected by the school district, the revenues to be generated by the annual levies are not recognized until the taxes are actually collected by the tax levying authority.

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 only the compensated absence liability payable from expendable available financial resources only if the payable has matured, for example, an employee retires.

COFFEEVILLE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
-Continued-

P. Estimates.

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

(2) Changes in Accounting Standards.

As required, the Coffeeville 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 effecting 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 and Investments.

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

Deposits. The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the school districts' 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.

COFFEEVILLE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
-Continued-

Investments. Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorized 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 deposits and interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, 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 fund (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.

Cash and Cash Equivalents.

The collateral for public entities' deposits in financial institutions is now 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.

COFFEEVILLE SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 -Continued-

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$2,213,492 and \$83,160 respectively. The carrying amounts of deposits reported in the government wide statements was: cash and cash equivalents \$2,167,835 and restricted assets \$45,657. The restricted assets represents the cash balance of the 16th section principal funds (permanent funds) which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$2,551,528.

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, 2006, \$-0- of the district's bank balance of \$2,551,528 was exposed to custodial credit risk.

Investments.

As of June 30, 2006, the district had the following investments. The District has no internal investment pool.

<u>Investment Type</u>	<u>Maturities (in years)</u>	<u>Fair Value</u>	<u>Rating</u>
U. S. Treasury Bills	N/A	\$ 54,552	AAA
Federal National Mortgage	N/A	347,272	AAA
Treasury Investments Fund	N/A	<u>87,000</u>	Aaa
 Total Investments		 \$ <u>488,824</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 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 addressed credit risk.

COFFEEVILLE SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 -Continued-

(4) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

	<u>DUE FROM</u>	<u>DUE TO</u>
Governmental Funds:		
General Fund	\$ 32,657	\$ 6,817
QZAB Bonds	33,031	0
Other Governmental Funds	<u>2,807</u>	<u>61,678</u>
Total Funds	\$ <u>68,495</u>	\$ <u>68,495</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

B. Transfers In/Out:

	<u>TRANSFER IN</u>	<u>TRANSFERS OUT</u>
Governmental Funds:		
General Fund	\$ 418,869	\$ 570,493
QZAB Bonds	89,442	0
Other Governmental Funds	<u>197,506</u>	<u>135,324</u>
Total Funds	\$ <u>705,817</u>	\$ <u>705,817</u>

Transfers are used to (1) move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due, (2) move restricted amounts from borrowings to the debt service fund to establish mandatory reserve accounts, (3) move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

COFFEEVILLE SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 -Continued-

(5) Capital Assets.

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

	BALANCE 7-1-05	ADDITIONS	RETIREMENTS	BALANCE 6-30-06
<u>Non-depreciable Capital Assets:</u>				
Land	\$ 19,078	\$ 0	\$ 0	\$ 19,078
Total Non-depreciable Capital Assets	<u>19,078</u>	<u>0</u>	<u>0</u>	<u>19,078</u>
<u>Depreciable Capital Assets:</u>				
Buildings	3,069,245	0	0	3,069,245
Building Improvements	36,764	0	0	36,764
Mobile Equipment	790,241	0	36,781	753,460
Furniture and Equipment	<u>698,582</u>	<u>17,199</u>	<u>6,979</u>	<u>708,802</u>
Total Depreciable Capital Assets	<u>4,594,832</u>	<u>17,199</u>	<u>43,760</u>	<u>4,568,271</u>
<u>Less Accumulated Depreciation for:</u>				
Buildings	911,528	48,228	0	959,756
Building Improvements	1,471	1,470	0	2,941
Mobile Equipment	485,325	45,260	29,793	500,792
Furniture and Equipment	<u>421,723</u>	<u>100,445</u>	<u>6,909</u>	<u>515,259</u>
Total Accumulated Depreciation	<u>1,820,047</u>	<u>195,403</u>	<u>36,702</u>	<u>1,978,748</u>
Total Depreciable Capital Assets, Net	<u>2,774,785</u>	<u>(178,204)</u>	<u>(7,058)</u>	<u>2,589,523</u>
Governmental Activities Capital Assets, Net	\$ <u>2,793,863</u>	\$ <u>(178,204)</u>	\$ <u>(7,058)</u>	\$ <u>2,608,601</u>

Depreciation expense was charged to the following governmental functions:

	AMOUNT
Instruction	\$ 70,632
Support Services	107,451
Non-Instructional	<u>17,320</u>
Total Depreciation Expense	\$ <u>195,403</u>

COFFEEVILLE SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 -Continued-

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

(6) Long-Term Liabilities.

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

	BALANCE 7-1-05	ADDITIONS	REDUCTIONS	ADJUSTMENTS	BALANCE 6-30-06	AMOUNTS DUE WITHIN ONE YEAR
A. Limited Obligation						
Bonds Payable	\$ 1,280,000	\$ 0	\$ 65,000	\$	\$ 1,215,000	\$ 70,000
B. Qualified Zone Academy						
Bonds Payable	950,000	0	0		950,000	0
C. Compensated Absences						
Payable	48,560	7,704	3,264		53,000	2,352
Totals	\$ 2,278,560	\$ 7,704	\$ 68,264	\$	\$ 2,218,000	\$ 72,352

A. 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	AMOUNTS	
				ISSUED	OUTSTANDING
State Aid Capital Improvement	Varies	03/01/98	02/1/18	\$ 1,560,000	\$ 1,215,000
Total				\$ 1,560,000	\$ 1,215,000

COFFEEVILLE SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 -Continued-

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

YEAR ENDING <u>JUNE 30</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2007	\$ 70,000	\$ 56,120	\$ 126,120
2008	70,000	52,130	122,130
2009	75,000	48,448	123,448
2010	80,000	44,960	124,960
2011	85,000	41,205	126,205
2012 - 2016	480,000	142,587	622,587
2017 - 2020	<u>355,000</u>	<u>22,325</u>	<u>377,325</u>
Total	\$ <u>1,215,000</u>	\$ <u>407,775</u>	\$ <u>1,622,775</u>

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

B. Qualified Zone Academy Bonds Payable.

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

<u>DESCRIPTION</u>	INTEREST	ISSUE	MATURITY	<u>AMOUNTS</u>	
	<u>RATE</u>	<u>DATE</u>	<u>DATE</u>	<u>ISSUED</u>	<u>OUTSTANDING</u>
Limited Tax Note	0%	07/20/00	7/20/10	\$ <u>950,000</u>	\$ <u>950,000</u>
Total				\$ <u>950,000</u>	\$ <u>950,000</u>

COFFEEVILLE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
-Continued-

C. Compensated Absences Payable.

As more fully explained in Note 1(O), compensated absences payable is adjusted on an annual basis as required by Section 37-7-307(5), 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 10.75% 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, 2006, 2005, and 2004 were \$355,805, \$340,119 and \$316,692, respectively, which equaled the required contributions for each year.

(8) Litigation.

The school district is not involved in litigation.

COFFEEVILLE SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 -Continued-

(9) 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.

<u>YEAR ENDING</u> <u>JUNE 30</u>	<u>AMOUNT</u>
2007	\$ 44,300
2008	36,542
2009	36,542
2010	<u>4,542</u>
TOTAL	\$ <u>121,926</u>

(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.

COFFEEVILLE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
-Continued-

Participation in Public Entity Risk Pool.

The school district participates in the Mississippi Educational Risk Cooperative (MERC), an insurance-purchasing pool. The school district, along with other school districts as a group, purchased insurance to insure against losses related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. Settled claims resulting from these insured risks have not exceeded the school district's insurance coverage since it joined the 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 119 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 BancorpSouth Bank in Jackson. The funds in the trust account are used to pay any claim up to \$500,000. For a claim exceeding \$500,000, 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.

COFFEEVILLE SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 -Continued-

(11) Qualified Zone Academy Bonds.

Section 226 of the Taxpayer Relief Act of 1997 (Public Law 105-34) provides for a source of capital at no or nominal interest rates for costs incurred by certain public schools in connection with the establishment of special academic programs from kindergarten through secondary school, in partnership with the business community.

On June 13, 2000, the Coffeeville School District board of trustees adopted a resolution authorizing the issuance of a nine hundred and fifty thousand dollars (\$950,000) limited-tax note of the district designating the note to be a qualified zone academy bond (the "Note") and awarding the sale of the note to the purchaser. The note resolution also authorized the superintendent and board president and secretary to execute all documents necessary to effect the issuance of the note. The school district, in agreement with the following organizations has entered into such an arrangement dated July 1, 2000:

- Phil Hardin Foundation
- Coffeeville Chamber of Commerce
- Tallahatchie Valley Electric Power Association
- Grenada Manufacturing
- K & D Marble
- Southern Computers, Inc.
- Steele Manufacturing Company

This agreement establishes a method of repayment for a qualified interest-free debt instrument. The agreement requires the school district to deposit funds annually into a sinking fund account on or before July 1. The amount accumulated in the sinking fund at the end of the ten-year period will be sufficient to retire the debt. The following schedule reports the yearly deposits to be made to the sinking fund by the school district.

<u>YEAR ENDING</u> <u>JUNE 30</u>	<u>AMOUNT</u>
2007	\$ 87,000
2008	87,000
2009	87,000
2010	<u>87,000</u>
 TOTAL	 \$ <u>348,000</u>

COFFEEVILLE SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

COFFEEVILLE SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
 For the Year Ended June 30, 2006

	BUDGETED AMOUNTS		ACTUAL (GAAP BASIS)	VARIANCE	
	ORIGINAL	FINAL		ORIGINAL TO FINAL	FINAL TO ACTUAL
REVENUES:					
Local Sources	\$ 1,017,011	\$ 1,063,436	\$ 1,062,516	\$ 46,425	\$ (920)
State Sources	3,188,858	3,238,661	3,140,103	49,803	(98,558)
Federal Sources	<u>109,000</u>	<u>69,904</u>	<u>69,904</u>	<u>(39,096)</u>	<u>0</u>
Total Revenues	<u>4,314,869</u>	<u>4,372,001</u>	<u>4,272,523</u>	<u>57,132</u>	<u>(99,478)</u>
EXPENDITURES:					
Instruction	2,544,634	2,516,750	2,508,498	27,884	8,252
Support Services	<u>2,051,276</u>	<u>1,751,562</u>	<u>1,737,004</u>	<u>299,714</u>	<u>14,558</u>
Total Expenditures	<u>4,595,910</u>	<u>4,268,312</u>	<u>4,245,502</u>	<u>327,598</u>	<u>22,810</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(281,041)</u>	<u>103,689</u>	<u>27,021</u>	<u>384,730</u>	<u>(76,668)</u>
OTHER FINANCING SOURCES (USES):					
Insurance Loss Recovery	0	13,567	13,567	13,567	0
Operating Transfers In	514,610	418,869	418,869	(95,741)	0
Operating Transfers Out	<u>(667,800)</u>	<u>(570,494)</u>	<u>(570,493)</u>	<u>97,306</u>	<u>1</u>
Total Other Financing Sources (Uses)	<u>(153,190)</u>	<u>(138,058)</u>	<u>(138,057)</u>	<u>15,132</u>	<u>1</u>
Net Change in Fund balances	<u>(434,231)</u>	<u>(34,369)</u>	<u>(111,036)</u>	<u>399,862</u>	<u>(76,667)</u>
FUND BALANCES					
July 1, 2005	<u>744,144</u>	<u>744,144</u>	<u>744,144</u>	<u>0</u>	<u>0</u>
June 30, 2006	<u>309,913</u>	<u>709,775</u>	<u>633,108</u>	<u>399,862</u>	<u>(76,667)</u>

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

COFFEEVILLE SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE FOR THE 16TH SECTION INTEREST FUND
 For the Year Ended June 30, 2006

	BUDGETED AMOUNTS		ACTUAL (GAAP BASIS)	VARIANCE	
	ORIGINAL	FINAL		ORIGINAL TO FINAL	FINAL TO ACTUAL
REVENUES:					
Local Sources	\$ 0	\$ 169	\$ 169	\$ 169	\$ 0
Sixteenth Section Sources	<u>64,389</u>	<u>128,751</u>	<u>128,751</u>	<u>64,362</u>	<u>0</u>
Total Revenues	<u>64,389</u>	<u>128,920</u>	<u>128,920</u>	<u>64,531</u>	<u>0</u>
EXPENDITURES:					
Total Expenditures	<u>0</u>	<u>903</u>	<u>0</u>	<u>(903)</u>	<u>903</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>64,389</u>	<u>128,017</u>	<u>128,920</u>	<u>63,628</u>	<u>903</u>
OTHER FINANCING SOURCES (USES):					
Operating Transfers Out	<u>(10,000)</u>	<u>(8,746)</u>	<u>0</u>	<u>1,254</u>	<u>8,746</u>
Total Other Financing Sources (Uses)	<u>(10,000)</u>	<u>(8,746)</u>	<u>0</u>	<u>1,254</u>	<u>8,746</u>
Net Change in Fund Balances	54,389	119,271	128,920	64,882	9,649
FUND BALANCES:					
July 1, 2005	<u>1,002,032</u>	<u>1,002,032</u>	<u>1,002,032</u>	<u>0</u>	<u>0</u>
June 30, 2006	<u>1,056,421</u>	<u>1,121,303</u>	<u>1,130,952</u>	<u>64,882</u>	<u>9,649</u>

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

COFFEEVILLE 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.

Budgets were prepared for all individual funds required by state law to have budgets.

COFFEEVILLE SCHOOL DISTRICT

SUPPLEMENTARY INFORMATION

COFFEVILLE SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended June 30, 2006

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE</u>	<u>CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>U. S. DEPARTMENT OF AGRICULTURE</u>		
Passed-through Mississippi Department of Education:		
Non-Cash Assistance:		
Food Donation	10.550	\$ 24,340
Child Nutrition Cluster:		
School Breakfast Program	10.553	104,328
National School Lunch Program	10.555	227,442
Summer Food Service Program for Children	10.559	46,964
Total		<u>378,734</u>
Total U.S. Department of Agriculture		<u>403,074</u>

<u>FEDERAL COMMUNICATIONS COMMISSION</u>		
Administered through the Universal Service Administration Company:		
The Schools and Libraries Program of the Universal Service Fund		
E-Rate	32.XXX	25,348
Total Federal Communications Commission		<u>25,348</u>

COFFEVILLE SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended June 30, 2006

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE</u>	<u>CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>U. S. DEPARTMENT OF EDUCATION</u>		
Passed-through Mississippi Department of Education:		
Reading First State Grant	84.357	\$ 234,254
Rural Education	84.358	20,651
Title I-Grants to Local Educational Agencies	84.010	337,988
Vocational Education-Basic Grants to States	84.048	14,113
Safe and Drug-free Schools and Communities-State Grants	84.186	6,018
State Grants for Innovative Programs	84.298	1,969
Improving Teacher Quality-State Grants	84.367	95,049
Education Technology State Grants	84.318	139,530
Grants for State Assessments and Related Activities	84.369	4,213
Total		<u>853,785</u>
Special Education Cluster:		
Special Education-Grants to States	84.027	134,016
Special Education-Preschool Grants	84.173	2,193
Total		<u>136,209</u>
Direct Programs:		
Federal Trio Program-Upward Bound	84.047	247,987
Total		<u>247,987</u>
Total U. S. Department of Education		<u>1,237,981</u>
Total for All Federal Awards		<u>\$ 1,566,403</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.

COFFEEVILLE SCHOOL DISTRICT
 SCHEDULE OF INSTRUCTIONAL, ADMINISTRATIVE, AND
 OTHER EXPENDITURES - GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2006

	INSTRUCTION AND OTHER STUDENT	GENERAL ADMINISTRATION	SCHOOL ADMINISTRATION	OTHER
	EXPENDITURES	EXPENDITURES	EXPENDITURES	EXPENDITURES
TOTAL	\$ 4,864,943	\$ 429,470	\$ 222,801	\$ 1,214,471
Salaries and Fringe Benefits	<u>1,562,138</u>	<u>77,942</u>	<u>6,486</u>	<u>917,193</u>
Other	\$ 3,558,718	\$ 507,412	\$ 229,287	\$ 2,131,664
Total	<u>\$ 6,427,081</u>	<u>\$ 507,412</u>	<u>\$ 229,287</u>	<u>\$ 2,131,664</u>
Total Number of Students	<u>697</u>			
Cost Per Student	\$ <u>9,221</u>	\$ <u>728</u>	\$ <u>329</u>	\$ <u>3,058</u>

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

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

General Administration - includes expenditures for the following functions: Support Services - General Administration (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.

COFFEEVILLE SCHOOL DISTRICT

REPORTS ON COMPLIANCE AND INTERNAL CONTROL



606 S. 16TH STREET / P.O. DRAWER 280 / OXFORD, MS 38655-0280 / PHONE (662) 234-1251 / FAX (662) 236-3804

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

Superintendent and School Board
Coffeeville School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Coffeeville School District as of and for the year ended June 30, 2006, and have issued our report thereon dated February 20, 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 Coffeeville 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 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 Coffeeville School District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 2006-1.

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 misstatement 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, we believe that the reportable condition described above is 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 disclosed an instance of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as item 2006-1.

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.

Young & Garrett

February 20, 2007



606 S. 16TH STREET / P.O. DRAWER 280 / OXFORD, MS 38655-0280 / PHONE (662) 234-1251 / FAX (662) 236-3804

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
Coffeeville School District

Compliance

We have audited the compliance of the Coffeeville 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. The school district's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the 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.

As described in item 2006-1 in the accompanying schedule of findings and questioned costs, the Coffeerville School District did not comply with the grant agreement regarding indirect costs that are applicable to its Title I program. Compliance with such requirements is necessary, in our opinion, to the Coffeerville School District to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance in the preceding paragraph, Coffeerville School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the Coffeerville 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.

We noted certain matters involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect Coffeerville School District's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 2006-1.

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 the 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. Our consideration of the internal control over compliance 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, we believe that the reportable condition described above is not a material weakness.

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.

Young & Sanett

February 20, 2007

COFFEEVILLE SCHOOL DISTRICT

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



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

Superintendent and School Board
Coffeeville School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Coffeeville School District as of and for the year ended June 30, 2006, which collectively comprise Coffeeville School District's basic financial statements and have issued our report thereon dated February 20, 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 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 \$9,505 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 material instance of noncompliance with other state laws and regulations as described in finding 2006-1 in the schedule of findings and questioned costs.

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.

Young & Sanett

February 20, 2007

COFFEEVILLE SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

COFFEEVILLE SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended June 30, 2006

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? | No |

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? | Yes |
| 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? | Yes |
| 7. Federal program identified as a major program: | |
| a. Child Nutrition Cluster: | |
| CFDA #10.553 | |
| CFDA #10.555 | |
| CFDA #10.559 | |
| b. Title I-Grants to Local Educational Agencies: | |
| CFDA #84.010 | |
| 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 |

Section 2: Financial Statement Findings

The results of our tests disclosed the following finding:

- 2006-1 (1) The district paid \$12,000.00 indirect costs from Title I, Part A, Improving Basic Programs Operated by Local Education Agencies under the "No Child Left Behind Act of 2001 (NCLB)", CFDA Number 84.010. The \$12,000.00 was not budgeted. The grant is a grant from the U.S. Department of Education which was passed through to the Mississippi Department of Education. The grant was for the fiscal year 2006.
- (2) The grant was approved on August 19, 2005. The grant was not amended. The approved grant does not allow for indirect costs being paid.

COFFEEVILLE SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
-Continued-

- (3) The accounting records show an expenditure for indirect costs in the amount of \$12,000.00. When the expenditures were compared to the approved grant, the finding was noted.
- (4) This finding is an isolated instance and not a systemic problem. Lack of internal control allowed this expenditure to be made. The accounting department should verify that all expenditures are authorized in order for the district to comply with the grant and with state law.

The amount of the indirect costs did not have a material effect on the financial statements; therefore, an unqualified opinion was rendered for the year ended June 30, 2006.

Recommendation

We recommend that the District implement and enforce proper internal control in order to lessen the reoccurrence of unauthorized expenditures. The grants and budgets needs to be reviewed in order to preclude making unauthorized disbursements. If an error exists in the grant and budget, then they should be amended.

Response

- (1) The District will review its internal control structure to determine where weaknesses exist. Necessary changes will be made. Internal control procedures will be strictly monitored and enforced.
- (2) Grants and budgets will be reviewed in order to preclude making unauthorized disbursements.

Section 3: Federal Award Findings and Questioned Costs

The unauthorized expenditure of \$12,000.00 for direct costs from Title I is explained in Section 2 in finding 2006-1.