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DREW SCHOOL DISTRICT
AUDITED FINANCIAL STATEMENTS

For the Year Ended June 30, 2006

JOEL B. CUNNINGHAM
CERTIFIED PUBLIC ACCOUNTANT

DREW SCHOOL DISTRICT

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

Superintendent and School Board
Drew School District
Drew, Mississippi

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Drew School District as of and for the year ended June 30, 2006, which collectively comprise the Drew School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Drew 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 Drew School District, as of 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 August 2, 2007, on our consideration of the Drew 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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages (4) through (9) and the Budgetary Comparison Schedule and corresponding notes on pages (31) through (33) 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 Drew School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. In addition, the Schedule of Instructional, Administrative and Other Expenditures – Governmental Funds is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read 'Joel B. Cunningham', with a long horizontal flourish extending to the right.

Joel B. Cunningham, CPA

August 2, 2007

DREW SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

DREW SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2006

The discussion and analysis of Drew 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 \$299,693, which represents a 27% decrease from fiscal year 2005.
- General revenues account for \$3,815,137 revenue, or 69% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$1,751,406 or 31% of total revenues.
- The District had \$5,866,236 in expenses; only \$1,751,406 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$3,815,137 and beginning net assets were adequate to provide for these programs.
- Among major funds, the General Fund had \$3,602,070 in revenues and \$3,919,813 in expenditures. The General Fund's fund balance decreased \$201,260 over the prior year. The Title I Fund had \$669,873 in revenues and \$655,756 in expenses, with no change in fund balance.
- Capital assets, net of accumulated depreciation, decreased by \$58,944 as a result of depreciation and prior period adjustments.
- Long-term debt decreased by \$53,962; this decrease is due to the repayment of the debt as required by the amortization schedules.

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 11-12 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 14 and 16, respectively.

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

The basic governmental fund financial statements can be found on Exhibit C and D of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The School District's fiduciary activities are presented in the Statement of Fiduciary Net Assets on page 17.

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 18-29 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 Title I Fund. This required supplementary information can be found on pages 31-33 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on page 35 of this report. The Schedule of Instructional, Administrative and Other Expenditures – Governmental Funds can be found on page 36.

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 \$823,042 as of June 30, 2006.

Of the District's net assets (9%) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment, leased property under capital leases and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

The 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 and 2005.

	2006	2005 Restated	Change	%
Current assets	\$ 1,196,824	1,526,803	(329,979)	-22%
Capital assets, net	<u>1,107,864</u>	<u>1,108,094</u>	<u>(230)</u>	0%
Total assets	<u>2,304,688</u>	<u>2,634,897</u>	<u>(330,209)</u>	-13%
Current liabilities	424,134	400,688	23,446	6%
Long-term debt outstanding	<u>1,057,512</u>	<u>1,111,474</u>	<u>(53,962)</u>	-5%
Total liabilities	<u>1,481,646</u>	<u>1,512,162</u>	<u>(30,516)</u>	-2%
Net assets:				
Invested in capital assets, net of related debt	77,864	18,094	59,770	330%
Restricted	298,781	450,946	(152,165)	-34%
Unrestricted	<u>446,397</u>	<u>653,695</u>	<u>(207,298)</u>	-32%
Total net assets	<u>\$ 823,042</u>	<u>1,122,735</u>	<u>(299,693)</u>	-27%

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2006 were \$5,566,543. The total cost of all programs and services was \$5,866,236. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2006.

	2006	2005 Restated	Change	%
Revenues:				
Program revenues:				
Charges for services	\$ 65,880	85,480	(19,600)	-22.9%
Operating grants and contributions	1,685,526	1,625,571	59,955	3.7%
General revenues:				
Property taxes	761,573	810,810	(49,237)	-6.1%
Grants and other contributions not restricted	2,853,561	2,810,098	43,463	1.5%
Other	<u>200,003</u>	<u>212,724</u>	<u>(12,721)</u>	-6.0%
Total revenues	<u>5,566,543</u>	<u>5,544,683</u>	<u>21,860</u>	0.4%
Expenses:				
Instruction	2,799,016	2,748,930	50,086	1.8%
Support services	2,474,893	2,216,120	258,773	11.7%
Non-instructional	504,878	505,542	(664)	-0.1%
Sixteenth section	35,193	1,772	33,421	1886.1%
Interest on long-term liabilities	<u>52,256</u>	<u>58,474</u>	<u>(6,218)</u>	-10.6%
Total expenses	<u>5,866,236</u>	<u>5,530,838</u>	<u>335,398</u>	6.1%
Increase in net assets	<u>(299,693)</u>	<u>13,845</u>	<u>(313,538)</u>	-2264.6%
Net assets, July 1	<u>1,122,735</u>	<u>1,108,890</u>	<u>13,845</u>	1.2%
Net assets, June 30	<u>\$ 823,042</u>	<u>1,122,735</u>	<u>(299,693)</u>	-26.7%

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.

	Total Expenses		Net (Expense) Revenue		Change	%
	2006	2005	2006	2005		
Instruction	\$ 2,799,016	2,748,930	(1,915,039)	(2,042,774)	127,735	-6%
Support services	2,474,893	2,216,120	(1,768,168)	(1,627,074)	(141,094)	9%
Non-instructional	504,878	505,542	(344,174)	(89,693)	(254,481)	284%
Sixteenth section	35,193	1,772	(35,193)	(1,772)	(33,421)	1886%
Interest on long-term liabilities	52,256	58,474	(52,256)	(58,474)	6,218	-11%
Total expenses	\$ 5,866,236	5,530,838	(4,114,830)	(3,819,787)	(295,043)	8%

- Net cost of governmental activities \$4,114,830 was financed by general revenue, which is made up of primarily property taxes of \$761,573 and state revenue \$2,817,797.
- Investment earnings accounted for \$8,796 of funding.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$789,212 a decrease of \$354,281. \$648,595 or 82% of the fund balance constitutes unreserved and undesignated fund balance. The remaining fund balance of \$140,617 or 18% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was \$201,260, a result of normal operations. The fund balance of the Title I fund showed no change. The fund balance of Other Governmental Funds showed a decrease of \$150,755, due primarily to normal business operations.

BUDGETARY HIGHLIGHTS

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

- Budgeted amounts for expenditures were increased for unexpected costs incurred by the district.

A schedule showing the original and final budget amounts compared to the District's actual financial activity for the General Fund and Title I Fund 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 \$2,492,001 including school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$38,412 from the previous year. Total accumulated depreciation as of June 30, 2006 was \$1,384,137 and total depreciation expense for the year was \$60,230, resulting in total net assets of \$1,107,864.

	2006	2005 Restated	Percentage Change
Land	\$ 36,500	\$ 36,500	0.0%
Buildings	896,276	923,072	-2.9%
Mobile equipment	74,779	41,000	82.4%
Furniture and equipment	100,309	107,522	-6.7%
Total	<u>\$ 1,107,864</u>	<u>\$ 1,108,094</u>	<u>0.0%</u>

Additional information of the District's capital assets can be found in Note 5 on page 26 of this report.

Debt Administration. At June 30, 2006, the District had \$1,057,512 in general obligation bonds and other long-term debt outstanding, of which \$65,000 is due within one year.

	Outstanding Debt 2006	2005	Percentage Change
Limited obligation bonds payable	\$ 1,030,000	\$ 1,090,000	-5.5%
Compensated absences payable	<u>27,512</u>	<u>21,474</u>	<u>28.1%</u>
Total	<u>\$ 1,057,512</u>	<u>\$ 1,111,474</u>	<u>-4.9%</u>

The District maintains an A+ bond rating.

Additional information of the District's long-term debt can be found in Note 6 beginning on page 27 of this report.

CURRENT ISSUES

The Drew School District is located in the central Delta area on Highway 49 West, in the northern part of Sunflower County. It is situated in the center of four larger towns, all of which serve as major shopping centers. They are Clarksdale, Cleveland, Indianola, and Greenwood. It is composed of 172.5 square miles of farmland. The total population is approximately 7,500. Located in the district are the towns of Rome and Drew. The district also serves the employee population of the Mississippi Department of Corrections (Parchman).

The three schools of the Drew School District are located in the town of Drew. Drew High School serves grades 9 -12 and has an approximate enrollment of 188. Hunter Middle School serves grades 5-8 and has an approximate enrollment of 198 students. A. W. James Elementary School serves grades K-4 and has an approximate enrollment of 250 students. The total enrollment for the District approximates 636.

The majority of persons in the community have a high school diploma or less. The community is best described as a working class community. Employment opportunities in the District are the Mississippi Department of Corrections at Parchman, the School District, and extensive farming operations which include cotton, rice, beans, and catfish. Some people work at factories and other businesses located in Cleveland, Ruleville, Clarksdale, and Indianola.

Located in the School District are a public library, a National Guard Armory, three parks, approximately twenty churches, and two banks. There are also three institutions of higher learning within 30 miles of the District.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Drew School District, 286 West Park Avenue, Drew, MS 38737.

DREW SCHOOL DISTRICT

FINANCIAL STATEMENTS

DREW SCHOOL DISTRICT
Statement of Net Assets
June 30, 2006

Exhibit A

	<u>Government Activities</u>
ASSETS	
Cash and cash equivalents	\$ 860,948
Investments	17,395
Due from other governments	270,137
Other receivables, net	10,990
Inventories and prepaid items	11,043
Restricted assets	26,311
Capital assets, not being depreciated:	
Land	36,500
Capital assets, net of accumulated depreciation:	
Buildings	896,276
Mobile equipment	74,779
Furniture and equipment	<u>100,309</u>
Total assets	2,304,688
LIABILITIES	
Accounts payable and accrued liabilities	349,639
Deferred revenue	57,973
Interest payable on long-term liabilities	16,522
Long-term liabilities (due within one year)	
Capital-related liabilities	65,000
Long-term liabilities (due beyond one year)	
Capital-related liabilities	965,000
Non-capital liabilities	<u>27,512</u>
Total liabilities	1,481,646
NET ASSETS	
Invested in capital assets, net of related debt	77,864
Restricted net assets:	
Expendable:	
School-based activities	170,144
Debt service	59,585
Unemployment benefits	42,741
Non-expendable:	
Sixteenth section principal	26,311
Unrestricted	<u>446,397</u>
Total net assets	<u><u>\$ 823,042</u></u>

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

DREW SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2006

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Primary Governmental Activities
Primary Government:					
Governmental Activities:					
Instruction	2,799,016	37,142	846,835	-	(1,915,039)
Support services	2,474,893	-	706,725	-	(1,768,168)
Non-instructional	504,878	28,738	131,966	-	(344,174)
Sixteenth section	35,193	-	-	-	(35,193)
Interest on long-term liabilities	52,256	-	-	-	(52,256)
Total governmental activities	\$ 5,866,236	65,880	1,685,526	-	(4,114,830)
General Revenues:					
Taxes:					
General purpose levies					761,573
Unrestricted grants and contributions:					
State					2,817,797
Federal					35,764
Unrestricted investment earnings					8,796
Sixteenth section sources					158,434
Other					32,773
Total General Revenues					3,815,137
Change in Net Assets					(299,693)
Net Assets - Beginning					1,181,449
Prior period adjustment					(58,714)
Net Assets - Beginning, restated					1,122,735
Net Assets - Ending					\$ 823,042

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

DREW SCHOOL DISTRICT
 Balance Sheet - Governmental Funds
 June 30, 2006

Exhibit C

	<u>Major Funds</u>			<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Title I Fund</u>	<u>Other Governmental Funds</u>	
ASSETS				
Cash and cash equivalents	\$ 662,134	-	225,125	887,259
Investments	-	-	17,395	17,395
Due from other governments	21,179	49,903	199,055	270,137
Due from other funds	73,345	-	14,105	87,450
Advances to other funds	2,000	-	-	2,000
Inventories and prepaid items	-	-	19,769	19,769
Total Assets	\$ 758,658	49,903	475,449	1,284,010
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 267,784	18,003	63,852	349,639
Deferred revenue	-	-	57,973	57,973
Due to other funds	14,965	31,900	40,321	87,186
Total Liabilities	282,749	49,903	162,146	494,798
Fund Balances:				
Reserved for:				
Advances	2,000	-	-	2,000
Inventory and prepaid items	-	-	19,769	19,769
Unemployment benefits	-	-	42,741	42,741
Debt service	-	-	76,107	76,107
Undesignated, reported in:				
General fund	473,909	-	-	473,909
Special revenue funds	-	-	148,375	148,375
Capital projects funds	-	-	-	-
Permanent funds	-	-	26,311	26,311
Total Fund Balances	475,909	-	313,303	789,212
Total Liabilities and Fund Balances	\$ 758,658	49,903	475,449	1,284,010

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

DREW SCHOOL DISTRICT

Exhibit C-1

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2006

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 789,212
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets are used in governmental activities and are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$1,107,864.	1,107,864
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(1,057,512)
3. Interest payable on long-term debt attributable to the current period is not reported in the funds until its due.	<u>(16,522)</u>
Total Net Assets - Governmental Activities	<u>\$ 823,042</u>

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

DREW SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

Exhibit D

	<u>Major Funds</u>			<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Title I Fund</u>	<u>Other Governmental Funds</u>	
Revenues:				
Local sources	\$ 865,929	-	34,840	900,769
State sources	2,700,373	-	180,659	2,881,032
Federal sources	35,768	669,873	919,611	1,625,252
Sixteenth section sources	-	-	159,493	159,493
Total Revenues	<u>3,602,070</u>	<u>669,873</u>	<u>1,294,603</u>	<u>5,566,546</u>
Expenditures:				
Instruction	2,114,705	248,318	429,955	2,792,978
Support services	1,804,298	393,356	313,064	2,510,718
Noninstructional services	810	14,082	451,665	466,557
Sixteenth section	-	-	35,193	35,193
Debt service:				
Principal	-	-	60,000	60,000
Interest	-	-	53,115	53,115
Total Expenditures	<u>3,919,813</u>	<u>655,756</u>	<u>1,342,992</u>	<u>5,918,561</u>
Excess (Deficiency) of Revenues Over Expenditures				
	<u>(317,743)</u>	<u>14,117</u>	<u>(48,389)</u>	<u>(352,015)</u>
Other Financing Sources (Uses):				
Operating transfers in	268,514	-	152,031	420,545
Operating transfers out	<u>(152,031)</u>	<u>(14,117)</u>	<u>(254,397)</u>	<u>(420,545)</u>
Total Other Financing Sources (Uses)	<u>116,483</u>	<u>(14,117)</u>	<u>(102,366)</u>	<u>-</u>
Net Change in Fund Balances				
	<u>(201,260)</u>	<u>-</u>	<u>(150,755)</u>	<u>(352,015)</u>
Fund Balances:				
July 1, 2005	677,169	-	466,324	1,143,493
Decrease in reserve for inventory	<u>-</u>	<u>-</u>	<u>(2,266)</u>	<u>(2,266)</u>
June 30, 2006	<u>\$ 475,909</u>	<u>-</u>	<u>313,303</u>	<u>789,212</u>

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

DREW 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

Exhibit D-1

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ (352,015)
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 asset purchases amounted to \$60,000 and the depreciation expense amounted to \$60,230.	(230)
2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities on the statement of net assets.	60,000
3. Interest payable on long-term debt is not recognized as an expenditure in the governmental funds but is recognized on the statement of activities.	856
4. Decrease in inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are increased in the statement of activities.	(2,266)
5. Expenses in the statement of activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds:	
Compensated absences	<u>(6,038)</u>
Change in Net Assets of Governmental Activities	<u>\$ (299,693)</u>

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

DREW SCHOOL DISTRICT
Statement of Fiduciary Assets and Liabilities
June 30, 2006

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 8,110
Due from other funds	<u>29</u>
Total Assets	<u><u>\$ 8,139</u></u>
Liabilities	
Due to other funds	\$ 293
Advances from other funds	2,000
Due to student clubs	<u>5,846</u>
Total Liabilities	<u><u>\$ 8,139</u></u>

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

DREW SCHOOL DISTRICT

Notes to the 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 Drew 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 non-exchange revenues.

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

Fund Financial Statements:

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

DREW SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2006

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 flows take 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.

The School District reports the following major governmental funds:

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

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

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

Additionally, the School District reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

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.

DREW SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2006

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.

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

Investments are reported at fair value.

H. Inventories and Prepaid Items.

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

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

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

I. Capital Assets.

Capital acquisition and construction are reflected as expenditures in the Governmental Fund

DREW SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2006

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
Leased property under capital leases	*	*

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

J. Long-term liabilities.

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

K. Interfund Transactions and Balances.

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

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

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

Interfund receivables and payables between funds within governmental activities are eliminated in the

DREW SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2006

Statement of Net Assets. See Note 4 for details for interfund transactions, including receivables and payables at year-end.

L. Equity Classifications.

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

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

Reserved for advances - An account used to offset advances recorded in the asset accounts since they do not constitute available spendable resources and are not a component of net current assets.

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

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

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

M. Property Taxes.

Ad valorem property taxes are levied by the governing authority of the city on behalf of the School District based upon an order adopted by the school board of the School District requesting an ad valorem tax effort

DREW SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2006

in dollars. Since the taxes are not levied and collected by the School District, the revenues to be generated by the annual levies are not recognized until the taxes are actually collected by the tax levying authority.

N. Mississippi Adequate Education Program Revenues.

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

O. Compensated Absences.

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

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

(2) Changes in Accounting Standards

As required, the Drew 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 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.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds were \$887,259 and \$8,110, respectively. The carrying amount of deposits reported in the government-wide financial statements was: cash and cash equivalents - \$860,948 and restricted assets - \$26,311. The restricted assets of \$26,311 represent the cash balance of the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$1,028,472.

DREW SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2006

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, none of the district's bank balance was exposed to custodial credit risk.

Investments.

As of June 30, 2006, the district had the following investments.

<u>Investment Type</u>	<u>Maturities (in years)</u>	<u>Fair Value</u>	<u>Rating</u>
Hancock Horizon treasury securities money market fund	Less than 1	\$ 17,395	AAAm
Total investments		<u>\$ 17,395</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.

Concentration of Credit Risk. Disclosures of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments.

(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	\$ 73,345	14,965
Title I Fund	-	31,900
Other Governmental Funds	14,105	40,321
Fiduciary Funds	29	293
Total Funds	<u>\$ 87,479</u>	<u>87,479</u>

DREW SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2006

The primary purpose of the interfund receivables and payables are to close out the federal programs at year end.

B. Advances To/From Other Funds:

	<u>Advances To</u>	<u>Advances From</u>
Governmental funds:		
General fund	\$ 2,000	-
Fiduciary Funds	-	2,000
Total Funds	<u>\$ 2,000</u>	<u>2,000</u>

Advances were for cash flow purposes.

C. Transfers In/Out.

	<u>Transfer In</u>	<u>Transfers Out</u>
Governmental funds:		
General fund	\$ 268,514	152,031
Title I fund	-	14,117
Other Governmental Funds	152,031	254,397
Total Funds	<u>\$ 420,545</u>	<u>420,545</u>

The primary purpose of the interfund transfers out of the general fund and into the non major funds was to finance basic operations of the district that are not directly funded. The primary reason for the transfer out of the non-major funds is the indirect cost allocation from the general fund.

DREW SCHOOL DISTRICT

Notes to the 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:

	<u>Balance 7/1/2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments ***</u>	<u>Balance 6/30/2006</u>	
<u>Non-depreciable capital assets:</u>						
Land	\$ 36,500	-	-	-	36,500	
Total non-depreciable capital assets	<u>36,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,500</u>	
<u>Depreciable capital assets:</u>						
Buildings	1,805,997	-	-	-	1,805,997	920,6
Mobile equipment	320,256	38,000	-	(21,000)	337,256	41,0
Furniture and equipment	290,836	22,000	-	(588)	312,248	107,5
Total depreciable capital assets	<u>2,417,089</u>	<u>60,000</u>	<u>-</u>	<u>(21,588)</u>	<u>2,455,501</u>	
<u>Less accumulated depreciation for:</u>						
Buildings	885,315	26,796	-	(2,390)	909,721	
Mobile equipment	208,119	4,221	-	50,137	262,477	
Furniture and equipment	193,347	29,213	-	(10,621)	211,939	
Total accumulated depreciation	<u>1,286,781</u>	<u>60,230</u>	<u>-</u>	<u>37,126</u>	<u>1,384,137</u>	
Total depreciable capital assets, net	<u>1,130,308</u>	<u>(230)</u>	<u>-</u>	<u>(58,714)</u>	<u>1,071,364</u>	
Governmental activities capital assets, net	<u>\$ 1,166,808</u>	<u>(230)</u>	<u>-</u>	<u>(58,714)</u>	<u>1,107,864</u>	

***Adjustments were due to errors made in prior years in recording fixed assets.

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Support services	24,175
Non-instructional	<u>36,055</u>
Total depreciation expense	<u>\$ 60,230</u>

DREW SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2006

(6) Long-term liabilities.

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

	Balance 7/1/2005	Additions	Reductions	Balance 6/30/2006	Amounts due Within one year
A. Limited obligation bonds	\$ 1,090,000	-	(60,000)	1,030,000	65,000
B. Compensated absences	21,474	6,038	-	27,512	-
Total	<u>\$ 1,111,474</u>	<u>6,038</u>	<u>(60,000)</u>	<u>1,057,512</u>	<u>65,000</u>

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	Amount Issued	Amount Outstanding
State aid capital improvement	varies	3/17/1998	3/17/1998	\$ 1,335,000	\$ 1,030,000
Total				<u>\$ 1,335,000</u>	<u>\$ 1,030,000</u>

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

Year Ending June 30	Principal	Interest	Total
2007	\$ 65,000	49,145	114,145
2008	70,000	45,570	115,570
2009	70,000	42,420	112,420
2010	75,000	39,200	114,200
2011	80,000	35,750	115,750
2012-2016	455,000	118,785	573,785
2017-2018	215,000	15,600	230,600
Total	<u>\$ 1,030,000</u>	<u>346,470</u>	<u>1,376,470</u>

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

B. 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

DREW SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2006

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 \$357,636, \$279,506 and \$278,054 respectively, which equaled the required contributions for each year.

(8) Sixteenth Section Lands.

Sixteenth section school lands, or lands granted in lieu thereof, constitute property held in trust for the benefit of the public schools. The school board, under the general supervision of the Office of the Secretary of State, has control and jurisdiction of said school trust lands and of all funds arising from any disposition thereof. It is the duty of the school board to manage the school trust lands and all funds arising therefrom as trust property. Accordingly, the board shall assure that adequate compensation is received for all uses of the trust lands, except for uses by the public schools. The following are the future rental payments to be made to the School District for the use of school trust lands. These future rental payments are from existing leases and do not anticipate renewals or new leases.

Year Ending June 30	Amount
2007	\$ 119,911
2008	115,911
2009	113,911
2010	28,411
2011	28,411
2012-2016	142,055
2017-2019	58,949
Total	<u>\$ 607,559</u>

(9) Risk Management.

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

Participation in Public Entity Risk Pool.

DREW SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2006

The School District is a member of the Mississippi Public Entity Workers' Compensation Trust (MPEWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust 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 MPEWCT contributes quarterly to a fund held in trust. The funds in the trust account are used to pay any claim up to \$400,000. For a claim exceeding \$400,000, MPEWCT 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 pool members would be required to pay for the deficiencies. The District has not had an additional assessment for excess losses incurred by the pool.

(10) Alternative School Consortium.

The school district entered into an Alternative School Agreement dated November 6, 1996, creating the North Delta Alternative School. This consortium was created pursuant to the provisions of Section 37-13-92(6), Miss. Code Ann. (1972), and approved by the Mississippi Department of Education and includes the West Tallahatchie School District, Coahoma County School District, Drew School District, North Bolivar School District, Quitman County School District, Mound Bayou School District, Coahoma Agricultural High School District, East Tallahatchie School District and Sunflower County School District.

Section 37-13-92(6), Miss. Code Ann. (1972), allows two or more adjacent school districts to enter into a contract to operate an alternative school program. The school board of the school district designated by the agreement as the lead district will serve as the governing board of the alternative school program. Transportation for students attending the alternative school program will be the responsibility of the individual school district sending the students.

The West Tallahatchie School District has been designated as the lead school district for the North Delta Alternative School and the operations of the consortium are included in its financial statements.

(11) Prior Period Audit Adjustments

A summary of significant fund equity adjustments is as follows:

Exhibit B- Statement of Activities

<u>Explanation</u>	<u>Amount</u>
1. Prior period fixed assets were overstated due to errors in calculating depreciation expense and capitalization of items under threshold.	<u>\$ 58,714</u>

DREW SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

DREW SCHOOL DISTRICT
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 906,972	965,301	865,929	58,329	(99,372)
State sources	2,879,356	2,705,323	2,700,373	(174,033)	(4,950)
Federal sources	30,000	35,768	35,768	5,768	-
Total Revenues	<u>3,816,328</u>	<u>3,706,392</u>	<u>3,602,070</u>	<u>(109,936)</u>	<u>(104,322)</u>
Expenditures:					
Instruction	2,122,448	2,171,198	2,114,705	(48,750)	56,493
Support services	1,646,554	1,787,051	1,804,298	(140,497)	(17,247)
Noninstructional services	1,755	810	810	945	-
Total Expenditures	<u>3,770,757</u>	<u>3,959,059</u>	<u>3,919,813</u>	<u>(188,302)</u>	<u>39,246</u>
Excess of Revenues Over Expenditures	<u>45,571</u>	<u>(252,667)</u>	<u>(317,743)</u>	<u>(298,238)</u>	<u>(65,076)</u>
Other Financing Sources (Uses):					
Operating transfers in	166,770	535,985	268,514	369,215	(267,471)
Operating transfers out	(11,000)	(350,000)	(152,031)	(339,000)	197,969
Total Other Financing Sources (Uses)	<u>155,770</u>	<u>185,985</u>	<u>116,483</u>	<u>30,215</u>	<u>(69,502)</u>
Net Change in Fund Balances	201,341	(66,682)	(201,260)	(268,023)	(134,578)
Fund Balances:					
July 1, 2005	<u>677,169</u>	<u>677,169</u>	<u>677,169</u>	<u>-</u>	<u>-</u>
June 30, 2006	<u>\$ 878,510</u>	<u>610,487</u>	<u>475,909</u>	<u>(268,023)</u>	<u>(134,578)</u>

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

DREW SCHOOL DISTRICT
 Budgetary Comparison Schedule
 Title I Fund
 For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ -	-	-	-	-
State sources	-	-	-	-	-
Federal sources	571,507	630,000	669,873	58,493	39,873
Total Revenues	571,507	630,000	669,873	58,493	39,873
Expenditures:					
Instruction	256,659	256,659	248,318	-	8,341
Support services	247,290	323,757	393,356	(76,467)	(69,599)
Noninstructional services	53,441	53,441	14,082	-	39,359
Total Expenditures	557,390	633,857	655,756	(76,467)	(21,899)
Excess of Revenues Over Expenditures	14,117	(3,857)	14,117	(17,974)	17,974
Other Financing Sources (Uses):					
Operating transfers in	-	-	-	-	-
Operating transfers out	(14,117)	(14,117)	(14,117)	-	-
Total Other Financing Sources (Uses)	(14,117)	(14,117)	(14,117)	-	-
Net Change in Fund Balances	-	(17,974)	-	(17,974)	17,974
Fund Balances:					
July 1, 2005	-	-	-	-	-
June 30, 2006	\$ -	(17,974)	-	(17,974)	17,974

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

DREW 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.

Individual funds that were required to be budgeted but were not budgeted as follows:

<u>Individual Fund</u>	<u>Fund Number</u>	<u>Amount</u>
EEF - Transportation Operation	2430	\$ 4,987
Hurricane Katrina - Displaced	2570	41,860
Hurricane Katrina - Displaced SPED	2571	7,476
Barksdale Reading Institute	2902	953
Mississippi's Choice	2913	13,629
Mississippi Delta Gear Up	2914	2,525

DREW SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

DREW 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>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	\$ 19,825
Child nutrition cluster:		
School breakfast program	10.553	118,347
National school lunch program	10.555	209,097
Total child nutrition cluster		<u>327,444</u>
Total U.S. Department of Agriculture		<u>347,269</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company		
The schools and libraries program of the universal service fund	32.xxx	35,767
Total Federal Communications Commission		<u>35,767</u>
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	683,502
Safe and drug-free schools and communities – state grants	84.186	11,332
State grants for innovative programs	84.298	5,432
Education technology state grants	84.318	30,483
Reading first state grants	84.357	195,213
Rural education	84.358	17,212
Improving teacher quality state grants	84.367	90,267
Hurricane education recovery	84.938	49,336
Total		<u>1,082,777</u>
Special education cluster:		
Special education - preschool grants	84.173	2,844
Special education - grants to states	84.027	152,015
Total special education cluster		<u>154,859</u>
Total passed-through Mississippi Department of Education		<u>1,237,636</u>
Total U.S. Department of Education		<u>1,237,636</u>
Total for All Federal Awards		<u>\$ 1,620,672</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.

DREW 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	\$ 4,337,619	2,992,825	541,130	319,870	483,794
Other	1,580,942	620,763	142,171	15,557	802,451
Total	<u>\$ 5,918,561</u>	<u>3,613,588</u>	<u>683,301</u>	<u>335,427</u>	<u>1,286,245</u>
Total number of students *	<u>636</u>				
Cost per student	<u>\$ 9,306</u>	<u>5,682</u>	<u>1,074</u>	<u>527</u>	<u>2,022</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, & 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

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

DREW SCHOOL DISTRICT

REPORTS ON INTERNAL CONTROL AND COMPLIANCE AND OTHER MATTERS

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

Superintendent and School Board
Drew School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Drew School District as of and for the year ended June 30, 2006, which collectively comprise the Drew School District's basic financial statements and have issued our report thereon dated August 2, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

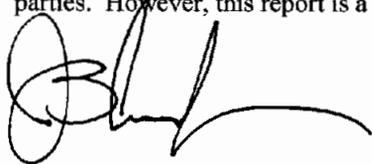
In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. 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 district's ability to record, process, summarize, and report financial data consistent to assertions of management in the financial statements. Reportable conditions are described in the Schedule of Findings and Questioned Costs as Findings 06-01, 06-02, 06-03 and 06-04.

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 material weaknesses. However, of the reportable conditions described above, we consider Findings 06-01, 06-02, 06-03, and 06-04 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the Schedule of Findings and Questioned Costs as Findings 06-01, 06-02, 06-03, and 06-04. We also noted certain immaterial instances of noncompliance that we have reported to management of the school district in a separate letter dated August 2, 2007, which is included in this report.

This report is intended solely for the information and use of the school board and management, 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 should not be limited.

A handwritten signature in black ink, appearing to read 'Joel B. Cunningham', with a long horizontal flourish extending to the right.

Joel B. Cunningham, CPA

August 2, 2007

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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
Drew School District

Compliance

We have audited the compliance of the Drew 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 Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, Drew 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 Drew 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 internal control over financial reporting and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. 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 district's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the Schedule of Findings and Questioned Costs as Findings 06-05 and 06-06.

A material weakness is a 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 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 material weaknesses. However, we believe none of the reportable conditions described in the findings referred to above are material weaknesses.

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

A handwritten signature in black ink, appearing to read 'Joel B. Cunningham', with a long horizontal flourish extending to the right.

Joel B. Cunningham, CPA

August 2, 2007

DREW 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
Drew School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Drew School District as of and for the year ended June 30, 2006, which collectively comprise the Drew School District's basic financial statements and have issued our report thereon dated August 2, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirement of Section 37-61-33(3) (a) (iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$10,397 in classroom supply funds carried over from previous years.

The results of these procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements disclosed the following immaterial instances of noncompliance with state laws and regulations. Our findings and recommendations and your responses are as follows:

1. Finding

Section 29-3-121, Miss. Code Ann. (1972), states that it shall be the duty of the superintendent of each school district to make or cause to be made annual lists of the children enrolled in the schools of such district and who reside in such district, which lists shall be based upon the end of the first month of enrollment required to be reported to the State Department of Education for the then current school year. The lists shall be made separately as to the townships in which the children reside. Such lists shall be filed with the superintendent of the custodial school district before December 31 of each year.

The district failed to prepare its list of educable children by December 31 as required by Section 29-3-121, Miss. Code Ann. (1972), which can result in revenue being distributed inaccurately. The district submitted its list of educable children on June 30, 2006.

Recommendation

The district should comply with Section 29-3-121, Miss. Code Ann. (1972), by filing the list of educable children by December 31 of each year.

School District's Response

As of the date of the audit report, the school district is complying with this regulation.

2. Finding

Section 37-7-333, Miss. Code Ann. (1972), states that school boards shall advertise and accept bids for depositories, no less than once every three years, when such board determines that they can obtain a more favorable rate of interest and less administrative processing.

The school district failed to advertise for interest bearing accounts and also maintained money market accounts and certificates of deposit at financial institutions not specifically approved by the board.

Recommendation

We recommend that the school district limit its banking to the banks approved by the school board pursuant to Section 37-7-333, Miss. Code Ann. (1972) as described above.

School District's Response

As of the date of the audit report, the school district is complying with this regulation.

3. Finding

Section 37-61-9(4), Miss. Code Ann. (1972), states that there shall be imposed limitations on budgeted expenditures for certain administrative costs in an amount not greater than \$150,000 plus four percent of the expenditures of all school districts each year.

During our examination of the budget, we noted that the district's administrative costs exceeded the limitation by \$162,769. The district's actual administrative costs were \$549,511. The administrative cost limitation was \$386,742.

Recommendation

We recommend the district comply with Section 37-61-9(4), Miss. Code Ann. (1972), as stated above.

School District's Response

The Drew School District is a small district where several administrators are already performing dual or triple duties. The administrative costs are above the limitations on the budgeted expenditures, but are not excessive and do not adversely affect the operations of the district nor preclude the district from a quality deliverance of educational services to the students of the district.

4. Finding

Section 37-9-18, Miss. Code Ann. (1972), requires the district to furnish to the school board a monthly financial statement of receipts and disbursements, by fund, on or before the last day of the following month. The district failed to comply with this requirement.

Recommendation

The district should comply with Section 37-9-18, Miss. Code Ann. (1972), as stated above and should document such compliance in the board minutes each month.

School District's Response

As of the date of the audit report, the school district is complying with this regulation.

5. Finding

Section 37-61-19, Miss. Code Ann. (1972), requires that a fund be budgeted before any expenditures are incurred in that fund. We found expenditures were incurred in multiple funds that had not been budgeted.

Recommendation

The district should comply with Section 37-61-19, Miss. Code Ann. (1972), as stated above.

School District's Response

All funds will be budgeted before any expenditure is made.

6. Finding

During our test work, we noted that the school district issued payroll advances in the amount of \$6,225 to seven employees. Some of these advances were paid back to the school district in installments. The advance checks were written on the additional check writing system used by the district and were not approved by the school board.

Article 4, Section 96 of the Mississippi Constitution prohibits any advances to any public employee for wages for services not rendered. In addition, we find no authority for the district to make loans to individuals.

The district has breached the public's trust in not safeguarding the assets of the district.

Recommendation

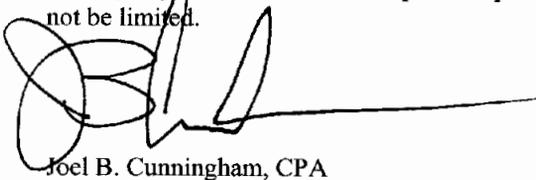
We recommend the district immediately cease making payroll advances or loans to employees and recover any outstanding advances immediately.

School District's Response

The district has discontinued making payroll advances

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

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



Joel B. Cunningham, CPA

August 2, 2007

DREW SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

DREW 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? | Yes |
| 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? | No |
| | b. Reportable condition(s) identified that are not considered to be material weaknesses? | Yes |
| 6. | Any audit finding(s) reported as required by Section __.510(a) of Circular A-133? | Yes |
| 7. | Federal programs identified as major programs: | |
| | a. Title I Grants to Local Educational Agencies
CFDA # | 84.010 |
| | b. Reading First State Grants
CFDA # | 84.357 |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$ 300,000 |
| 9. | Auditee qualified as a low-risk auditee? | No |
| 10. | Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section __.315(b) of OMB Circular A-133? | Yes |

DREW SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006

Section 2: Financial Statement Findings

Material Noncompliance/Material Weakness

06-01 Finding

Section 37-9-14(3), Miss. Code Ann. (1972), requires an order of the school board approving payment of all pay certificates for expenditures of each school district. Ensuring that all approvals are obtained for all pay certificates is important in establishing a strong internal control system.

We found controls were not in place to insure that all pay certificates were being included in the claims docket and approved by the school board. Checks in the amount of \$461,036 were manually written or generated from an additional computer system maintained by the district. These checks were not included in the claims docket and thus were not approved by the school board. However, these transactions were subsequently recorded in the district's primary accounting system. This procedure resulted in material amounts of expenditures being paid without approval by the school board. The financial statements reflected these expenditures even though they were not approved.

Recommendation

The district should implement policies and procedures to insure all disbursements are included in the claims docket and approved by the school board. We recommend that the school district discontinue use of the extra check writing system immediately.

06-02 Finding

Management is responsible for establishing a proper internal control system to insure strong financial accountability and safeguard its assets. However, there is a lack of segregation of duties involving the business manager in all areas of cash receipts/revenue and disbursement cycles. The administration has not recognized a need to segregate duties among members in the business office to reduce the risk that inappropriate transactions could occur and not be detected. Without proper segregation of duties, the district increases the risk that unauthorized or inappropriate transactions could be processed and district personnel not detect irregularities during the normal course of their duties on a timely basis.

Recommendation

The district should revise its systems of cash receipts/revenue and disbursement functions whereby duties would be divided to the greatest extent possible.

06-03 Finding

Management is responsible for insuring that all revenue is correctly earned, recorded, and deposited in order to safeguard the assets of the district. The district had inadequate controls with regard to safeguarding receipts. The following weaknesses were noted:

- A. Receipts were not written consecutively from receipt books per location.
- B. Receipt numbers were not written on deposit slips.

In adequate controls surrounding revenue collection could result in theft of assets and improper revenue recognition.

DREW SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006

Recommendation

We recommend that the district implement policies and procedures to insure assets are adequately safeguarded and revenue is properly recognized and recorded.

06-04 Finding

Each school board is responsible for determining which employees will be entrusted with the duties of purchasing and signature functions regarding expenditures. The administration is required to follow the directives of the governing board.

During testing performed on expenditures, the following internal control weaknesses were noted:

- A. Board policy stated that all employees who sign checks will be authorized to sign checks by the school board. Bank signature cards indicated that four employees were authorized to sign checks. However, the board minutes reflected authorization only for the superintendent to co-sign checks along with one other signer authorized by the board. The other signers were not named in the board minutes.
- B. The payroll clerk was authorized on the bank signature card to sign payroll checks, and the accounts payable clerk was authorized on the bank signature card to sign accounts payable checks.
- C. Blank checks were not adequately safeguarded. Blank checks and the money market account checkbooks were not kept in a secure location.
- D. Board policy states that all purchasing agents will be board approved. During our audit, no approval was found in the board minutes for any of the purchasing agents.

Inadequate internal controls surrounding expenditures and the disbursements cycle could result in theft of assets and improper expenditure recognition.

Recommendation

We recommend that the district implement policies and procedures to insure that approval of employees authorized to sign checks and be purchasing agents is recorded in the board minutes. Proper segregation of duties should be considered in selecting employees for each roll. In addition, checks should be safeguarded to the greatest extent possible.

Section 3: Federal Award Findings and Questioned Costs

Reportable Conditions Not Considered to be Material Weaknesses

06-05 Program: Title I grants to local educational agencies; passed-through the Mississippi Department of Education – CFDA #84.010

Compliance requirement: Allowable costs/cost principles

DREW SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006

Finding

Management is required to insure that federal awards are expended only for allowable activities and that the costs of goods and services charged to federal awards are allowable and in accordance with applicable cost principles. We found that \$5,507 of Title I checks were manually written or generated from an additional computer system maintained by the district that were not included in the claims docket and thus were not approved by the school board.

This procedure resulted in the payment of Title I expenditures that were not approved by the school board as discussed in Finding 06-01.

Recommendation

The district should implement policies and procedures to insure all disbursements are included in the claims docket and approved by the school board.

06-06 Program: Reading First State Grant; passed-through the Mississippi
Department of Education – CFDA #84.357

Compliance requirement: Allowable costs/cost principles

Finding

Management is required to insure that federal awards are expended only for allowable activities and that the costs of goods and services charged to federal awards are allowable and in accordance with applicable cost principles. We found that \$3,324 of Reading First checks were manually written or generated from an additional computer system maintained by the district that were not included in the claims docket and thus were not approved by the school board.

This procedure resulted in the payment of Reading First expenditures that were not approved by the school board as discussed in Finding 06-01.

Recommendation

The district should implement policies and procedures to insure all disbursements are included in the claims docket and approved by the school board.

DREW SCHOOL DISTRICT

AUDITEE'S CORRECTIVE ACTION PLAN
AND
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

DREW SCHOOL DISTRICT

286 WEST PARK AVENUE
DREW, MISSISSIPPI 38767
PHONE – 662 745-6657
FAX – 662 745-6630

Auditee's Correcting Action Plan and Summary of Prior Audit Findings

Joel B. Cunningham, CPA
202 Church Street
Belzoni, MS 39038

Dear Mr. Cunningham:

As required by Section .315(c) of OMB Circular A-133, the Drew School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2006:

<u>Finding</u>	<u>Correction Action Plan Details</u>
06-01	<p>a. Name of Contact Person Responsible for Corrective Action: Madalyn Johnson, Business Manager, 662-745-6657</p> <p>b. Corrective Action Planned:</p> <ol style="list-style-type: none">1. All disbursements will be included in the claims docket which will be approved by the school board. All checks will be written through the Accounts Payable system.2. The extra check writing system has been discontinued. <p>c. Anticipated Completion Date: Immediately.</p>
06-02	<p>a. Name of Contact Person Responsible for Corrective Action: Madalyn Johnson, Business Manager, 662-745-6657</p> <p>b. Corrective Action Planned: Duties have been reassigned so that the cash receipt function has been divided.</p> <p>c. Anticipated Completion Date: Immediately.</p>

06-03

- a. Name of Contact Person Responsible for Corrective Action:
Madalyn Johnson, Business Manager, 662-745-6657
- b. Corrective Action Planned:
The district has ordered pre-numbered receipt books for each location. Receipt numbers will be written on deposit slips.
- c. Anticipated Completion Date:
Immediately.

06-04

- a. Name of Contact Person Responsible for Corrective Action:
Madalyn Johnson, Business Manager, 662-745-6657
- b. Corrective Action Planned:
 - 1. The board has approved all check signers since the audit.
 - 2. The payroll clerk has been taken off the payroll account as an authorized signer, and the accounts payable clerk has been removed as an authorized signer of the accounts payable account.
 - 3. Checks have been moved to a secure location in the Business Manager's office.
 - 4. All purchasing agents have been approved by the board.
- c. Anticipated Completion Date:
Immediately.

06-05

- a. Name of Contact Person Responsible for Corrective Action:
Madalyn Johnson, Business Manager, 662-745-6657
- b. Corrective Action Planned:
 - 1. All disbursements will be included in the claims docket which will be approved by the school board. All checks will be written through the Accounts Payable system.
 - 2. The extra check writing system has been discontinued.
- c. Anticipated Completion Date:
Immediately.

- 06-06
- a. Name of Contact Person Responsible for Corrective Action:
Madalyn Johnson, Business Manager, 662-745-6657
 - b. Corrective Action Planned:
 - 1. All disbursements will be included in the claims docket which will be approved by the school board. All checks will be written through the Accounts Payable system.
 - 2. The extra check writing system has been discontinued.
 - c. Anticipated Completion Date:
Immediately.

As required by Section .315(c) of OMB Circular A-133, the Drew School District has prepared and hereby submits the following summary schedule of prior audit findings as of June 30, 2006:

Finding: Corrective Action Taken:

2005-09 Finding is repeated
2005-10 Finding has been corrected
2005-11 Finding has not been corrected
2005-12 Finding has not been corrected

Sincerely,

Earlcine B. Carter, Ph. D., NCSP
Superintendent

DREW SCHOOL DISTRICT

286 WEST PARK AVENUE
DREW, MISSISSIPPI 38767
PHONE - 662 745-6657
FAX - 662 745-6630

Auditee's Correcting Action Plan and Summary of Prior Audit Findings

Joel B. Cunningham, CPA
202 Church Street
Belzoni, MS 39038

Dear Mrs. Cunningham:

As required by Section .315(c) of OMB Circular A-133, the Drew School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2006:

<u>Finding</u>	<u>Correction Action Plan Details</u>
06-01	<p>a. Name of Contact Person Responsible for Corrective Action: Madalyn Johnson, Business Manager, 662-745-6657</p> <p>b. Corrective Action Planned:</p> <ol style="list-style-type: none">1. All disbursements will be included in the claims docket which will be approved by the school board. All checks will be written through the Accounts Payable system.2. The extra check writing system has been discontinued. <p>c. Anticipated Completion Date: Immediately.</p>
06-02	<p>a. Name of Contact Person Responsible for Corrective Action: Madalyn Johnson, Business Manager, 662-745-6657</p> <p>b. Corrective Action Planned: Duties have been reassigned so that the cash receipt function has been divided.</p> <p>c. Anticipated Completion Date:</p>

Immediately.

06-03

a. Name of Contact Person Responsible for Corrective Action:

Madalyn Johnson, Business Manager, 662-745-6657

b. Corrective Action Planned:

The district has ordered pre-numbered receipt books for each location. Receipt numbers will be written on deposit slips.

c. Anticipated Completion Date:

Immediately.

06-04

a. Name of Contact Person Responsible for Corrective Action:

Madalyn Johnson, Business Manager, 662-745-6657

b. Corrective Action Planned:

1. The board has approved all check signers since the audit.
2. The payroll clerk has been taken off the payroll account as an authorized signer, and the accounts payable clerk has been removed as an authorized signer of the accounts payable account.
3. Checks have been moved to a secure location in the Business Manager's office.
4. All purchasing agents have been approved by the board.

c. Anticipated Completion Date:

Immediately.

06-05

a. Name of Contact Person Responsible for Corrective Action:

Madalyn Johnson, Business Manager, 662-745-6657

- b. Corrective Action Planned:
 - 1. All disbursements will be included in the claims docket which will be approved by the school board. All checks will be written through the Accounts Payable system.
 - 2. The extra check writing system has been discontinued.
- c. Anticipated Completion Date:
Immediately.

06-06

- a. Name of Contact Person Responsible for Corrective Action:
Madalyn Johnson, Business Manager, 662-745-6657
- b. Corrective Action Planned:
 - 1. All disbursements will be included in the claims docket which will be approved by the school board. All checks will be written through the Accounts Payable system.
 - 2. The extra check writing system has been discontinued.
- c. Anticipated Completion Date:
Immediately.

As required by Section .315(c) of OMB Circular A-133, the Drew School District has prepared and hereby submits the following summary schedule of prior audit findings as of June 30, 2006:

<u>Finding:</u>	<u>Corrective Action Taken:</u>
2005-09	Finding is repeated
2005-10	Finding has been corrected
2005-11	Finding is repeated
2005-12	Finding is repeated

Sincerely,



Earlcine B. Carter, Ph. D., NCSP
Superintendent