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**LOUISVILLE MUNICIPAL SCHOOL DISTRICT**

**AUDIT REPORT**

**JUNE 30, 2006**

# LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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**LOUISVILLE MUNICIPAL SCHOOL DISTRICT**

**FINANCIAL AUDIT REPORT**



**Watkins, Ward and Stafford**  
Professional Limited Liability Company  
Certified Public Accountants

James L. Stafford, CPA  
Harry W. Stevens, CPA  
Paul A. Ray, CPA  
S. Keith Winfield, CPA  
William B. Stagers, CPA  
Aubrey R. Holder, CPA  
David M. Howell, CPA  
Michael W. McCully, CPA  
Mont Stroud, CPA  
Gary C. Hamilton, CPA  
R. Steve Sinclair, CPA

Michael L. Pierce, CPA  
Marsha L. McDonald, CPA  
Wanda S. Holley, CPA  
Robin Y. McCormick, CPA/PFS  
J. Randy Scrivner, CPA  
Kimberly S. Caskey, CPA  
Susan M. Lummas, CPA  
Thomas J. Browder, CPA  
Stephen D. Flake, CPA  
John N. Russell, CPA  
Kenny R. Dickerson, CPA

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

Superintendent and School Board  
Louisville Municipal School District

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Louisville Municipal School District as of and for the year ended June 30, 2006, which collectively comprise the Louisville Municipal School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Louisville Municipal School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Louisville Municipal 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 February 1, 2007, on our consideration of the Louisville Municipal School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 4 through 12 and the Budgetary Comparison Schedules and corresponding notes on pages 36 through 40 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Louisville Municipal School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. In addition, the Schedule of Instructional, Administrative and Other Expenditures – Governmental Funds 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.

Watkins, Ward and Stafford, PLLC  
Louisville, Mississippi  
February 1, 2007

*Watkins, Ward and Stafford, PLLC*

**LOUISVILLE MUNICIPAL SCHOOL DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

LOUISVILLE MUNICIPAL SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

The discussion and analysis of Louisville Municipal 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.

This discussion and analysis is Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999. Certain comparative information between the current year and the prior year is required to be presented. This report will present certain comparative information between fiscal year 2005 and 2006.

The Louisville Municipal School District consists of the following schools: Fair Elementary School (K-3), Louisville Elementary School (4-6), Eiland Middle School (7-8), Louisville High School (9-12), Nanih Waiya Attendance Center (K-12), Noxapater Attendance Center (K-12), and the Winston-Louisville Vocational Center. As of the end of September 2005, the total enrollment was 2,908 (down 03 from September 2004); the district had 440 regular staff members.

#### FINANCIAL HIGHLIGHTS

- Total net assets increased \$336,807, which represents a 3 % increase from fiscal year 2005. To keep a healthy reserve in a very unstable economy, the district saw a year of very controlled staffing and spending practices and careful review and use of all resources when fulfilling needs of schools during FY 2006.
- General revenues account for \$16,633,939 in revenue, or 74 % of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$5,780,686 or 26 % of total revenues.
- The District had \$20,077,818 in expenses; only \$5,780,686 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$16,633,939 were adequate to provide for these programs.

- Among major funds, the General Fund had \$17,281,250 in revenues and \$15,629,567 in expenditures. The General Fund's fund balance increased \$499,574 over the prior year. This increase reflects careful staffing of teachers and assistant teachers in the schools, controlled expenditures for supplies and equipment, and a mild winter with stable utility costs. Higher fuel costs account for an increase smaller than the prior year.
- Capital assets, net of accumulated depreciation, decreased by \$30,369. During FY 2006, the school district added items to the inventory totaling \$331,913 and deleted items from the inventory totaling \$41,175. The accumulated depreciation for FY 2006 was a net increase of \$321,107 causing a further decrease when showing capital assets net of accumulated depreciation.
- Long-term debt was decreased by \$53,675. The decrease consists of a final payment of \$20,442 to BanCorpSouth on the Series 2002 Shortfall Note, payments totaling \$22,462 on the EPA Asbestos Loans (interest free) and net decrease in Compensated Absences payments/increases of \$10,771.

## OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22 - 35 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's budget process.

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund. This required supplementary information can be found on pages 37 - 40 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on pages 42-43 of this report.

#### GOVERNMENT-WIDE FINANCIAL ANALYSIS

**Net assets.** Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$12,519,522 as of June 30, 2006.

A large portion (\$6,271,148) of the District's net assets (50%) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, and furniture and equipment) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

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

The following table presents a summary of the District's net assets for the fiscal years 2005 and 2006.

	2005 <u>Amount</u>	2006 <u>Amount</u>	Total <u>% Change</u>
Current assets	\$ 7,341,287	\$ 7,867,085	7.2%
Capital assets, net	<u>6,301,517</u>	<u>6,271,148</u>	(0.5)%
<b>Total assets</b>	<b><u>\$13,642,804</u></b>	<b><u>\$ 14,138,233</u></b>	<b>3.6%</b>
Current liabilities	\$ 1,176,246	\$ 1,368,100	20.7%
Long-term debt outstanding	<u>283,843</u>	<u>250,611</u>	(23.3)%
<b>Total liabilities</b>	<b><u>\$ 1,460,089</u></b>	<b><u>\$ 1,618,711</u></b>	<b>10.9%</b>

	<u>2005</u> <u>Amount</u>	<u>2006</u> <u>Amount</u>	<u>Total</u> <u>% Change</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	6,301,517	6,271,148	(.5)%
Restricted	2,948,249	2,762,176	(6.3)%
Unrestricted	<u>2,932,949</u>	<u>3,486,198</u>	18.9%
<b>Total net assets</b>	<b><u>12,182,715</u></b>	<b><u>\$ 12,519,522</u></b>	<b>2.8%</b>

**Changes in net assets.** The District's total revenues for the fiscal year ended June 30, 2006 were \$22,414,625. The total cost of all programs and services was \$ 22,077,818. The following table presents a summary of the changes in net assets for the fiscal years 2005 and 2006.

	Change in Net Assets		Percentage
	June 30, 2006	June 30, 2006	Change
<b>Revenues:</b>			
<b>Program revenues:</b>			
Charges for services	\$ 797,086	\$ 803,513	.8%
Operating grants and contributions	4,578,084	4,977,173	8.7%
<b>General revenues:</b>			
Property taxes	3,424,056	3,861,232	12.8%
Grants and contributions not restricted	11,893,159	12,383,558	4.1%
Other	749,801	389,149	( 48.1% )
<b>Total revenues</b>	<u>21,442,186</u>	<u>22,414,625</u>	4.5%
<b>Expenses:</b>			
Instruction	12,668,480	13,367,113	5.5%
Support services	6,497,194	7,027,766	8.2%
Non-instructional	1,474,739	1,580,769	7.2%
Sixteenth section	35,516	101,871	186.8%
Interest and other expense on long-term liabilities	1,068	299	( 72.0% )
<b>Total expenses</b>	<u>20,676,997</u>	<u>22,077,818</u>	6.8%
<b>Increase (Decrease) in net assets</b>	<u>765,189</u>	<u>336,807</u>	( 56.0% )
<b>Net Assets, July 1</b>	<u>11,417,526</u>	<u>12,182,715</u>	6.7%
<b>Net Assets, June 30</b>	<u>\$ 12,182,715</u>	<u>\$ 12,519,522</u>	2.8%

The following are significant current year transactions that have had an impact on the Statement of Activities. Teacher salaries increased significantly due to state mandated raises. Also, the required contribution rate for the state retirement system increased from 9.75% to 10.75%.

**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		
	2005	2006	% Change	2005	2006	% Change
Instruction	\$12,668,480	\$13,367,113	5.5%	\$ (9,941,473)	\$(10,209,350)	( 2.7)%
Support services	6,497,194	7,027,766	8.2%	(5,363,675)	(5,897,379)	(10.0)%
Non-instructional	1,474,739	1,580,769	7.2%	(50,963)	(93,681)	(83.8)%
Sixteenth section	35,516	101,871	186.8%	55,352	(96,423)	(274.2)%
Interest on long-term						
Liabilities	1,068	299	(72.0)%	(1,068)	(299)	72.0%
<b>Total expenses</b>	<b>\$20,676,997</b>	<b>22,077,818</b>	<b>6.8%</b>	<b>\$(15,301,827)</b>	<b>\$(16,297,132)</b>	<b>6.50%</b>

- Net cost of governmental activities (\$16,297,132), was financed by general revenue, which is primarily made up of property taxes (\$ 3,861,232) and state revenue (\$12,198,888).
- Investment earnings accounted for \$ 186,325 of funding. The district was in a one year depository agreement with Renasant Bank with a minimum rate of 3.24% interest paid on deposited funds.

## 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 \$6,521,447, an increase of \$ 313,003 due primarily to the efficient use of staff and resources, higher interest rates and sales of Sixteenth Section timber. \$ 5,926,523 or 91% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$ 594,924 or 9% is reserved or designated to indicate that it is not available for spending because it has already been committed. \$2,131,465 of the unreserved/undesignated fund balance belongs to the Sixteenth Section Interest Fund; these funds can be transferred to general funds and used for operating expenditures at the discretion of the Board. Sixteenth Section Principal Fund has an ending balance of \$187,616; these funds can only be invested or loaned to the District. Forestry

Escrow's balance of \$230,089 is committed to Sixteenth Section property improvements as approved by the District Forestry Commission. School Food Service ended the year with a fund balance of \$77,873. \$3,412 remains in debt service funds and Unemployment Compensation has an ending balance of \$62,342.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$ 499,574, a result of continued careful management of all resources and tight control over staffing and other expenditures. The District is making a conscious effort to keep a healthy fund balance in light of an unstable economy and questionable revenue collections. The fund balance of Other Governmental Funds showed a decrease of \$309,982 due primarily to reductions in Federal grant funds and use of reserves.

### **BUDGETARY HIGHLIGHTS**

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

- Budget amounts for revenue from general sources were increased to reflect higher interest rates and increases in activity fund revenues. Expenditures were amended to add authority for expending increases funds in support service categories.
- Budget amounts for revenue from state sources were decreased to reflect reductions in EEF funds and Vocational Education funds. Expenditures were amended to reflect these reductions.
- Budgeted amounts for revenue from federal sources was increased due to the district receiving Displaced Student Grant funds for students that enrolled in the district following Hurricane Katrina. Budget amounts for the related expenditures were approved and expended.

A schedule showing the original and final budget amounts compared to the District's actual financial activity for the General Fund and each major special revenue 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 \$12,888,678, including school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$290,738 from the previous year. The most significant increases to the Capital Assets Inventory were mobile equipment. Total accumulated depreciation as of June 30, 2006 was \$6,617,530 and total depreciation expense for the year was \$354,936, resulting in total net assets of \$6,271,148.

Additional information of the District's capital assets can be found in Note 5 on page 32 of this report.

**Debt Administration.** At June 30, 2006, the District had \$ 273,073 in general obligation bonds and other long-term debt outstanding, of which \$ 22,462 is due within one year.

Since the District has not had any bond issues, it is non-rated.

Additional information of the District's long-term debt can be found in Note 6 on page 33 of this report.

## **CURRENT ISSUES**

The Louisville Municipal School District is financially stable. The District is proud of its community support of the public schools. As a consolidated school district, the District is pleased with the good working relationships it has with the City of Louisville and the Winston County governments.

The District has committed itself to financial excellence for many years. The millage has actually decreased from 46.00 mills in FY 1991-1992 to 42.03 mills in FY 2005-2006. (This includes a levy of 2.0 mills for fees charged by the City of Louisville and Winston County to collect school taxes.) As the District is aware of Winston County's high unemployment rate and the hard economic times for many people residing in the city and county, it will continue to try to keep the millage rate as low as possible while maintaining excellence in the public schools.

In addition, the District system of financial planning, budgeting and internal financial controls is well regarded. Over the past 10 years, the District has had a trend of declining enrollment and ADA. Because of this trend and the current unstable state and federal funding climate, the District has been very conservative staffing and in incurring debt. Currently, the only debts of the District are two interest free EPA Asbestos Loans which will be paid off in 2012. The District plans to continue its sound fiscal management to meet the challenges of the future.

Latest enrollment figures indicate that student enrollment in the District is will remain about the current level. The budget for the next fiscal year has taken this and previous years of declining enrollments in planning funding and staffing needs.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

If you have questions about this report, contact the Superintendent's Office of the Louisville Municipal School District, P. O. Box 909, 112 South Columbus Avenue, Louisville, Mississippi, 39339.

**LOUISVILLE MUNICIPAL SCHOOL DISTRICT**

**FINANCIAL STATEMENTS**

Louisville Municipal School District  
Statement of Net Assets  
June 30, 2006

Exhibit A

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 5,418,737
Investments	1,441,797
Due from other governments	746,035
Other receivables, net	24,628
Inventories and prepaid items	48,272
Restricted assets	187,616
Capital assets, not being depreciated:	
Land	259,320
Capital assets, net of accumulated depreciation:	
Buildings	4,625,475
Improvements other than buildings	39,858
Mobile equipment	1,140,370
Furniture and equipment	206,125
<b>Total Assets</b>	<u>14,138,233</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	1,319,963
Unearned revenue	25,675
Long-term liabilities, due within one year	
Non-capital related liabilities	22,462
Long-term liabilities, due beyond one year	
Non-capital related liabilities	250,611
<b>Total Liabilities</b>	<u>1,618,711</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	6,271,148
Restricted net assets:	
Expendable:	
School-based activities	2,278,717
Debt service	3,412
Forestry improvements	230,089
Unemployment benefits	62,342
Non-expendable:	
Sixteenth section	187,616
Unrestricted	3,486,198
<b>Total Net Assets</b>	<u>\$ 12,519,522</u>

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

Louisville Municipal School District  
 Statement of Activities  
 For the Year Ended June 30, 2006

Exhibit B

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Instruction	\$ 13,367,113	484,076	2,673,687	(10,209,350)
Support services	7,027,766		1,130,387	(5,897,379)
Non-instructional	1,580,769	313,989	1,173,099	(93,681)
Sixteenth section	101,871	5,448		(96,423)
Interest on long-term liabilities	299			(299)
<b>Total Governmental Activities</b>	<b>\$ 22,077,818</b>	<b>803,513</b>	<b>4,977,173</b>	<b>(16,297,132)</b>
General Revenues:				
Taxes:				
General purpose levies				3,846,569
Debt purpose levies				14,663
Unrestricted grants and contributions:				
State				12,198,888
Federal				184,670
Unrestricted investment earnings				186,325
Sixteenth section sources				79,792
Other				123,032
<b>Total General Revenues</b>				<b>16,633,939</b>
<b>Change in Net Assets</b>				<b>336,807</b>
<b>Net Assets - Beginning</b>				<b>12,182,715</b>
<b>Net Assets - Ending</b>				<b>\$ 12,519,522</b>

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

Louisville Municipal School District  
 Balance Sheet - Governmental Funds  
 June 30, 2006

Exhibit C

	Major Funds				Total Governmental Funds
	General Fund	Displaced Students Grant Fund	Sixteenth Section Interest Fund	Other Governmental Funds	
<b>ASSETS</b>					
Cash and cash equivalents	\$ 4,221,515	5,089	832,786	472,138	5,531,528
Investments			1,302,391	214,231	1,516,622
Due from other governments	269,169	176,482		300,384	746,035
Other receivables, net			15,356		15,356
Due from other funds	328,226				328,226
Inventories and prepaid items	10,183			38,089	48,272
<b>Total Assets</b>	<b>\$ 4,829,093</b>	<b>181,571</b>	<b>2,150,533</b>	<b>1,024,842</b>	<b>8,186,039</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable and accrued liabilities	\$ 1,069,822	5,089	5,713	239,339	1,319,963
Due to other funds		176,482		142,472	318,954
Deferred revenue			13,355	12,320	25,675
<b>Total Liabilities</b>	<b>1,069,822</b>	<b>181,571</b>	<b>19,068</b>	<b>394,131</b>	<b>1,664,592</b>
<b>Fund Balances:</b>					
<b>Reserved for:</b>					
Inventory				38,089	38,089
Prepaid items	10,183				10,183
Ad valorem	63,193				63,193
Debt service				3,412	3,412
Unemployment benefits				62,342	62,342
Forestry improvement purposes				230,089	230,089
Permanent fund purposes				187,616	187,616
<b>Undesignated, reported in:</b>					
General Fund	3,685,895				3,685,895
Special Revenue Funds			2,131,465	109,163	2,240,628
<b>Total Fund Balances</b>	<b>3,759,271</b>	<b>-</b>	<b>2,131,465</b>	<b>630,711</b>	<b>6,521,447</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 4,829,093</b>	<b>181,571</b>	<b>2,150,533</b>	<b>1,024,842</b>	<b>8,186,039</b>

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

**Louisville Municipal School District  
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets  
June 30, 2006**

**Exhibit C-1**

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 6,521,447
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 \$6,617,530.	6,271,148
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(273,073)
Total Net Assets - Governmental Activities	\$ <u>12,519,522</u>

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

Louisville Municipal School District  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2006**

**Exhibit D**

	Major Funds				Total Governmental Funds
	General Fund	Displaced Students Grant Fund	Sixteenth Section Interest Fund	Other Governmental Funds	
<b>Revenues:</b>					
Local sources	\$ 4,581,865	80		339,801	4,921,746
State sources	12,394,635			669,381	13,064,016
Federal sources	304,750	210,795		3,781,170	4,296,715
Sixteenth section sources			117,232	14,916	132,148
<b>Total Revenues</b>	<b>17,281,250</b>	<b>210,875</b>	<b>117,232</b>	<b>4,805,268</b>	<b>22,414,625</b>
<b>Expenditures:</b>					
Instruction	9,967,782	209,437		3,093,792	13,271,011
Support services	5,635,168			1,438,843	7,074,011
Noninstructional services				1,619,740	1,619,740
Sixteenth section	10,710		2,534	88,628	101,872
<b>Debt service:</b>					
Principal	15,907			26,997	42,904
Interest				797	797
<b>Total Expenditures</b>	<b>15,629,567</b>	<b>209,437</b>	<b>2,534</b>	<b>6,268,797</b>	<b>22,110,335</b>
<b>Excess (Deficiency) of Revenues over Expenditures</b>	<b>1,651,683</b>	<b>1,438</b>	<b>114,698</b>	<b>(1,463,529)</b>	<b>304,290</b>
<b>Other Financing Sources (Uses):</b>					
Operating transfers in	21,973			1,174,082	1,196,055
Operating transfers out	(1,174,082)	(1,438)		(20,535)	(1,196,055)
<b>Total Other Financing Sources (Uses)</b>	<b>(1,152,109)</b>	<b>(1,438)</b>	<b>-</b>	<b>1,153,547</b>	<b>0</b>
<b>Net Change in Fund Balances</b>	<b>499,574</b>	<b>0</b>	<b>114,698</b>	<b>(309,982)</b>	<b>304,290</b>
<b>Fund Balances:</b>					
July 1, 2005	3,259,697	-	2,016,767	931,980	6,208,444
Increase (Decrease) in reserve for inventory				8,713	8,713
<b>June 30, 2006</b>	<b>\$ 3,759,271</b>	<b>0</b>	<b>2,131,465</b>	<b>630,711</b>	<b>6,521,447</b>

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

**Louisville Municipal 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	\$ 304,290
Amounts reported for governmental activities in the Statement of Activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchased amounted to \$331,913 and the depreciation expense amounted to \$354,936.	(23,023)
2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Activities.	42,904
3. Governmental funds recognize interest on long-term debt when it becomes due, however, the Statement of Activities recognizes interest as it accrues regardless of when it becomes due.	498
4. Gains and losses on the sale or disposals of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds.	(7,346)
5. Increase (decrease) in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are (decreased) increased in the Statement of Activities.	8,713
6. 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>10,771</u>
Change in Net Assets of Governmental Activities	\$ <u><u>336,807</u></u>

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

**Louisville Municipal School District  
Statement of Fiduciary Net Assets  
June 30, 2006**

**Exhibit E**

	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 65,415	90,003
<b>Total Assets</b>	<u>\$ 65,415</u>	<u>90,003</u>
<b>Liabilities</b>		
Due to other funds	\$	9,272
Due to student clubs	<u></u>	<u>80,731</u>
<b>Total Liabilities</b>	<u>\$ -</u>	<u>90,003</u>
<b>Net Assets</b>		
Reserved for endowments	\$ 65,415	
<b>Total Net Assets</b>	<u>\$ 65,415</u>	

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

Louisville Municipal School District  
 Statement of Changes in Fiduciary Net Assets  
 June 30, 2006

Exhibit F

	<u>Private-Purpose Trust Funds</u>
Additions	
Interest on investments	\$ 1,751
Contributions and donations from private sources	<u>5,350</u>
Total Additions	<u>7,101</u>
Deductions	
Scholarships awarded	<u>975</u>
Total Deductions	<u>975</u>
Change in Net Assets	<u>6,126</u>
Net Assets	
July 1, 2005	<u>59,289</u>
June 30, 2006	<u>\$ 65,415</u>

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

# LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

### (1) Summary of Significant Accounting Policies.

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

#### A. Financial Reporting Entity.

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the school district's governing board. As defined by accounting principles generally accepted in the United States of America, the school district is considered a "primary government." The school district is governed by a five-member board to which each member was elected by citizens of each defined county district.

#### B. Basis of Presentation.

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

##### *Government-wide Financial Statements:*

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

The Statement of Net Assets presents the financial condition of the governmental activities of the school district at year-end. The government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the school district's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. 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.

# LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

### *Fund Financial Statements:*

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

### C. Measurement Focus and Basis of Accounting.

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

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

The school district reports the following major governmental funds:

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

Displaced Students Grant Fund – This is the school district's fund that is used to insure proper disbursement of and accounting for the Displaced Students Grant associated with Hurricane Katrina.

Sixteenth Section Interest Fund – This is the school district's fund that accumulates sixteenth section revenues that are available to supplement the district's operating activities.

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

# LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

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.

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

Permanent Funds – Permanent Funds are used to account for resources that are legally restricted to the extent that only earnings, and not the principal, may be used for purposes that support the district's programs.

### FIDUCIARY FUNDS

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

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

#### D. Account Classifications.

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

#### E. Encumbrances.

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.

**LOUISVILLE MUNICIPAL SCHOOL DISTRICT**

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

**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.

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

**I. Capital Assets.**

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

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

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

**LOUISVILLE MUNICIPAL SCHOOL DISTRICT**

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

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

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

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

**J. Long-term Liabilities.**

Long-term liabilities are the un-matured principal of bonds, warrants, notes, or other forms of non-current 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 government activities column. See Note 6 for details.

**K. Interfund Transactions and Balances.**

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

Short-term (due within one year) interfund loan receivables are reported as "due from other funds" and are considered available expendable resources.

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

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

**L. Equity Classifications.**

*Government-wide Financial Statements:*

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

## LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

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

#### *Fund Financial Statements*

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

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

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

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

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

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

Reserved for permanent fund purposes – An account that represents a portion of the fund balance that is legally restricted for investment purposes or borrowing by the school board for capital purposes.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

M. Property Taxes.

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

# LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

### (3) Cash and Cash Equivalents and Investments.

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

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

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

#### Cash and Cash Equivalents.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$5,531,528 and \$155,418, respectively. The carrying amount of deposits reported in the government-wide financial statements was: cash and cash equivalents - \$5,418,737 and restricted assets - \$112,791. The restricted assets of \$187,616 represent the cash balance and investment balance of the Sixteenth Section Principal Fund (Permanent Fund) of \$112,791 and \$74,825 respectively, which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$6,893,617.

**LOUISVILLE MUNICIPAL SCHOOL DISTRICT**

**Notes to 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 of \$6,893,617 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>
Pioneer Treasury Reserves	Less than 1	\$ 30,644	Not rated
Federal Farm Credit Bank Bonds	1 to 5*	631,423	AAA
Federal Home Loan Bank Bonds	5 to 10**	283,200	AAA
Federal Home Loan Bank Bonds	5 to 10	240,975	AAA
Federal Home Loan Bank Bonds	5 to 10	281,875	AAA
Federated Governmental Obligation Mutual Fund	Less than 1	48,505	Not rated
<b>Total Investments</b>		<b>\$ 1,516,622</b>	

\* Callable 8/23/2005

\*\* Callable 9/16/2006

*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. Of the district's \$1,516,622 in investments, \$30,644 of underlying securities are held by the investment's counterparty, not in the name of the district.

**LOUISVILLE MUNICIPAL SCHOOL DISTRICT**

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

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

<u>Issuer</u>	<u>Fair Value</u>	<u>% of Total Investments</u>
Federal Farm Credit Bank Bonds	\$ 631,423	42%
Federal Home Loan Bank Bonds	806,050	53%
	<u>\$ 1,437,473</u>	

(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	\$ 328,226	-
Displaced students grant fund		176,482
Other governmental funds		142,472
Fiduciary funds		9,272
	<u>328,226</u>	<u>328,226</u>
Total	<u>328,226</u>	<u>328,226</u>

Due from/to other funds was comprised of loans to cover deficit cash balances.

B. Transfers In/Out.

	<u>Transfer In</u>	<u>Transfers Out</u>
Governmental Funds:		
General fund	\$ 21,973	1,174,082
Displaced students grant fund	-	1,438
Other governmental funds	1,174,082	20,535
	<u>1,196,055</u>	<u>1,196,055</u>
Total	<u>\$ 1,196,055</u>	<u>1,196,055</u>

Transfers in/out consisted of transfers for indirect costs, transfers of interest and operating costs. The majority of the transfers were for operating costs.

**LOUISVILLE MUNICIPAL SCHOOL DISTRICT**

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

(5) Capital Assets.

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

	Balance 7-1-2005	Additions	Retirements	Balance 6-30-2006
Non-depreciable capital assets:				
Land	\$ 259,320	-	-	259,320
Total non-depreciable capital assets	259,320	-	-	259,320
Depreciable capital assets:				
Buildings	8,413,860			8,413,860
Improvements other than buildings	68,576			68,576
Mobile equipment	3,266,284	224,386		3,490,670
Furniture and equipment	589,900	107,527	41,175	656,252
Total depreciable capital assets	12,338,620	331,913	41,175	12,629,358
Less accumulated depreciation for:				
Buildings	3,654,898	133,487		3,788,385
Improvements other than buildings	25,975	2,743		28,718
Mobile equipment	2,192,211	158,089		2,350,300
Furniture and equipment	423,339	60,617	33,829	450,127
Total accumulated depreciation	6,296,423	354,936	33,829	6,617,530
Total depreciable capital assets, net	6,042,197	( 23,023 )	( 7,346 )	6,011,828
Governmental activities, capital assets, net	6,301,517	( 23,023 )	( 7,346 )	6,271,148

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 138,748
Support services	169,849
Non-instructional	46,339
 Total Depreciation Expense	 \$ 354,936

**LOUISVILLE MUNICIPAL SCHOOL DISTRICT**

**Notes to 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. Shortfall notes payable	\$ 20,442		20,442	-	-
B. Other loans payable	138,789		22,462	116,327	22,462
C. Compensated absences payable	167,517	-	10,771	156,746	-
<b>Total</b>	<b>\$ 326,748</b>	<b>-</b>	<b>53,675</b>	<b>273,073</b>	<b>22,462</b>

A. Other loans payable.

The school district has issued debt instruments granted under the authority of Section 37-7-302, Miss. Code Ann. (1972).

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
EPA asbestos loan	0%	4/17/1992	05/30/2012	\$ 129,900	32,475
EPA asbestos loan	0%	4/17/1992	05/30/2012	274,425	83,852
<b>Total</b>				<b>\$ 404,325</b>	<b>116,327</b>

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

Year Ending June 30	Principal	Interest	Total
2007	\$ 22,462		22,462
2008	22,463		22,463
2009	22,462		22,462
2010	22,463		22,463
2011	18,854		18,854
2012-2016	7,623		7,623
<b>Total</b>	<b>\$ 116,327</b>		<b>116,327</b>

B. Compensated absences payable.

As more fully explained in Note 1 (0), compensated absences payable is adjusted on an annual basis as required by Section 37-7-307(5), Miss. Code Ann. (1972). Compensated absences will be paid from the fund from which the employees' salaries were paid.

**LOUISVILLE MUNICIPAL SCHOOL DISTRICT**

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

(7) Defined Benefit Pension Plan.

Plan Description. The school district contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That 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 \$1,363,347, \$1,180,604, and \$1,128,388, respectively, which equaled the required contributions for each year.

(8) Other Commitments.

Commitments under re-roofing and renovation contracts amount to \$408,639.

(9) Sixteenth Section Lands.

Sixteenth section school lands, or lands granted in lieu thereof, constitute property held in trust for the benefit of the public schools. The school board, under the general supervision of the Office of the Secretary of State, has control and jurisdiction of said school trust lands and of all funds arising from any disposition thereof. It is the duty of the school board to manage the school trust lands and all funds arising therefrom as trust property. Accordingly, the board shall assure that adequate compensation is received for all uses of the trust lands, except for uses by the public schools. The following are the future rental payments to be made to the school district for the use of the 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	\$ 42,379
2008	41,811
2009	41,799
2010	37,352
2011	16,997
2012-2016	57,742
2017-2021	43,242
2022-2026	20,756
2027-2031	6,859
2031-2036	120
 Total	 \$ <u>309,057</u>

## LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

#### (10) Subsequent Events.

Subsequent to June 30, 2006, the school district made the purchase commitments reported below:

1. Approved bid for re-roofing and package rooftop unit replacement at the fourth grade classroom building at the Louisville Elementary School and the kindergarten building at the Noxapater Attendance Center. The total projected budget for the project is \$259,971.
2. Approved purchase of one bus from Burroughs Bus Sales totaling \$55,800.
3. Approved purchase of three buses from Empire Truck Sales totaling \$168,000.
4. Approved purchase of a bus for handicapped students with a wheel chair lift from Waters Truck totaling \$73,070.

#### (11) 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 risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

##### Participation in Public Entity Risk Pool.

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 119 school districts and covers risks of loss arising from injuries to the school district's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by BancorpSouth Bank in Jackson. The funds in the trust account are used to pay any claim up to \$500,000. For a claim exceeding \$500,000, MSBAWCT has insurance which will pay the excess up to \$25,000,000. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

**LOUISVILLE MUNICIPAL SCHOOL DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION**

Louisville Municipal 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
<b>Revenues:</b>					
Local sources	\$ 690,662	694,622	859,115	3,960	164,493
State sources	2,207,144	2,233,742	2,198,815	26,598	(34,927)
Federal sources	40,000	41,500	41,190	1,500	(310)
<b>Total Revenues</b>	<b>2,937,806</b>	<b>2,969,864</b>	<b>3,099,120</b>	<b>32,058</b>	<b>129,256</b>
<b>Expenditures:</b>					
Instruction	1,953,362	2,018,460	1,998,086	(65,098)	20,374
Support services	1,434,620	1,462,376	1,396,224	(27,756)	66,152
<b>Total Expenditures</b>	<b>3,387,982</b>	<b>3,480,836</b>	<b>3,394,310</b>	<b>(92,854)</b>	<b>86,526</b>
<b>Excess (Deficiency) of Revenues over Expenditures</b>	<b>(450,176)</b>	<b>(510,972)</b>	<b>(295,190)</b>	<b>(60,796)</b>	<b>215,782</b>
<b>Other Financing Sources (Uses):</b>					
Sale of transportation equipment		1,200	1,200	1,200	0
Operating transfers in	747,716	753,626	300,000	5,910	(453,626)
Operating transfers out	(383,102)	(393,199)	(88,812)	(10,097)	304,387
<b>Total Other Financing Sources (Uses)</b>	<b>364,614</b>	<b>361,627</b>	<b>212,388</b>	<b>(2,987)</b>	<b>(149,239)</b>
<b>Net Change in Fund Balances</b>	<b>(85,562)</b>	<b>(149,345)</b>	<b>(82,802)</b>	<b>(63,783)</b>	<b>66,543</b>
<b>Fund Balances:</b>					
July 1, 2005	235,033	298,173	298,173	63,140	0
June 30, 2006	\$ 149,471	148,828	215,371	(643)	66,543

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

Louisville Municipal School District  
 Budgetary Comparison Schedule  
 Displaced Students Grant 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	\$	81	80	81	(1)
Federal sources		210,795	210,795	210,795	0
Total Revenues	0	210,876	210,875	210,876	(1)
Expenditures:					
Instruction		209,438	209,437	(209,438)	1
Total Expenditures	0	209,438	209,437	(209,438)	1
Excess (Deficiency) of Revenues over Expenditures	0	1,438	1,438	1,438	0
Other Financing Sources (Uses):					
Operating transfers out		(1,438)	(1,438)	(1,438)	0
Total Other Financing Sources (Uses)	0	(1,438)	(1,438)	(1,438)	0
Net Change in Fund Balances	0	0	0	0	0
Fund Balances:					
July 1, 2005	0	0	0	0	0
June 30, 2006	\$ 0	0	0	0	0

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

Louisville Municipal School District  
 Budgetary Comparison Schedule  
 Sixteenth Section Interest 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:					
Sixteenth section sources	\$ 179,100	183,239	117,232	4,139	(66,007)
Total Revenues	<u>179,100</u>	<u>183,239</u>	<u>117,232</u>	<u>4,139</u>	<u>(66,007)</u>
Expenditures:					
Sixteenth section	600	2,700	2,534	(2,100)	166
Total Expenditures	<u>600</u>	<u>2,700</u>	<u>2,534</u>	<u>(2,100)</u>	<u>166</u>
Excess (Deficiency) of Revenues over Expenditures	<u>178,500</u>	<u>180,539</u>	<u>114,698</u>	<u>2,039</u>	<u>(65,841)</u>
Other Financing Sources (Uses):					
Operating transfers out				0	0
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	<u>178,500</u>	<u>180,539</u>	<u>114,698</u>	<u>2,039</u>	<u>(65,841)</u>
Fund Balances:					
July 1, 2005	<u>1,987,834</u>	<u>2,016,767</u>	<u>2,016,767</u>	<u>28,933</u>	<u>0</u>
June 30, 2006	<u>\$ 2,166,334</u>	<u>2,197,306</u>	<u>2,131,465</u>	<u>30,972</u>	<u>(65,841)</u>

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

## LOUISVILLE MUNICIPAL 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.

**LOUISVILLE MUNICIPAL SCHOOL DISTRICT**

**SUPPLEMENTAL INFORMATION**

**LOUISVILLE MUNICIPAL 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 No.	Federal Expenditures
<b><u>U.S. Department of Agriculture</u></b>		
Passed through the Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	\$ 81,318
Child nutrition cluster		
School breakfast program	10.553	285,611
National school lunch program	10.555	897,529
Total		<u>1,183,140</u>
Child and adult care food program	10.558	<u>9,001</u>
Forest services:		
National forest-dependent rural communities	10.670	<u>79,600</u>
Total U.S. Department of Agriculture		<u>1,353,059</u>
<b><u>Federal Communications Commission</u></b>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.XXX	25,689
Total Federal Communications Commission		<u>25,689</u>
<b><u>U.S. Department of Defense</u></b>		
Direct program:		
Reserve Officers' Training Corps	12.XXX	40,416
Total U.S. Department of Defense		<u>40,416</u>
<b><u>U.S. Department of Interior</u></b>		
Direct program:		
Payments in lieu of taxes	15.226	79,381
Total U.S. Department of Interior		<u>79,381</u>
<b><u>U.S. Department of Education</u></b>		
Direct program:		
Impact aid - facilities maintenance	84.040	78,208
Twenty-first century community learning centers	84.287	123,407
Total		<u>201,615</u>
Passed through the Mississippi Department of Education:		
Title I, grants to local educational agencies	84.010	1,122,989
Vocational education - basic grants to states	84.048	51,492
Safe and drug free schools and communities - state grants	84.186	23,238
State grants for innovative programs	84.298	7,779
Education technology state grants	84.318	24,088
Reading first state grants	84.357	166,454
Rural education	84.358	117,449
Improving teacher quality - state grants	84.367	282,373
Grants for state assessments and related activities	84.369	8,944
Hurricane education recovery act programs - restart	84.938	210,795
Total		<u>2,015,601</u>

**LOUISVILLE MUNICIPAL SCHOOL DISTRICT**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30,2006**

<b>Federal Grantor/ Pass-through Grantor/ Program Title</b>	<b>Catalog Of Federal Domestic Assistance No.</b>	<b>Federal Expenditures</b>
Special Education Cluster:		
Special Education - Grants to States	84.027	660,822
Special Education - Preschool Grants	84.173	30,917
Total Special Education Cluster		<u>691,739</u>
Total U.S. Department of Education		<u>2,908,955</u>
<b><u>Department of Homeland Security</u></b>		
Direct program:		
Disaster Grants - Public Assistance(Presidentially Declared Disasters)	97.036	8,673
Total Department of Homeland Security		<u>8,673</u>
<b>Total for All Federal Awards</b>		<u><u>\$ 4,416,173</u></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.

Louisville Municipal School District  
 Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds  
 For the Year Ended June 30, 2006

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 17,312,568	11,870,630	575,842	929,828	3,936,268
Other	4,797,767	1,400,381	190,694	99,745	3,106,947
Total	\$ 22,110,335	13,271,011	766,536	1,029,573	7,043,215

Total number of students \* 2,833

Cost per student \$ 7,805 4,684 271 363 2,486

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

include 100 and 200 range object codes on the "Salaries and fringe benefits" line; all other expenditures on the "Other" line

**LOUISVILLE MUNICIPAL SCHOOL DISTRICT**

**REPORTS ON INTERNAL CONTROL AND COMPLIANCE**



**Watkins, Ward and Stafford**  
Professional Limited Liability Company  
Certified Public Accountants

James L. Stafford, CPA	Michael L. Pierce, CPA
Harry W. Stevens, CPA	Marsha L. McDonald, CPA
Paul A. Ray, CPA	Wanda S. Holley, CPA
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Gary C. Hamilton, CPA	John N. Russell, CPA
R. Steve Sinclair, CPA	Kenny R. Dickerson, CPA

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

Superintendent and School Board  
Louisville Municipal School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Louisville Municipal School District as of and for the year ended June 30, 2006, which collectively comprise the Louisville Municipal School District's basic financial statements and have issued our report thereon dated February 1, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the school district's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the school district's ability to initiate, record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the Schedule of Findings and Questioned Costs as Findings 06-1 and 06-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions referred to above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance or other matters that we have reported to management of the school district in a separate letter dated February 1, 2007, which is included in this report.

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.

Watkins, Ward and Stafford, PLLC  
Louisville, Mississippi  
February 1, 2007

*Watkins, Ward and Stafford, PLLC*



**Watkins, Ward and Stafford**  
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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  
 Louisville Municipal School District

Compliance

We have audited the compliance of the Louisville Municipal School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program 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, Louisville Municipal School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the Schedule of Findings and Questioned Costs as Finding 06-3.

### Internal Control Over Compliance

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

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

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.

Watkins, Ward and Stafford, PLLC  
Louisville, Mississippi  
February 1, 2006

*Watkins, Ward and Stafford, PLLC*

**LOUISVILLE MUNICIPAL SCHOOL DISTRICT**

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



**1 Watkins, Ward and Stafford**  
**Professional Limited Liability Company**  
**Certified Public Accountants**

James L. Stafford, CPA  
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**INDEPENDENT AUDITOR'S REPORT**  
**ON COMPLIANCE WITH STATE LAWS AND REGULATIONS**

Superintendent and School Board  
 Louisville Municipal School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Louisville Municipal School District as of and for the year ended June 30, 2006, which collectively comprise Louisville Municipal School District's basic financial statements and have issued our report thereon dated February 1, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$4,025 of classroom supply funds carried over from previous years.

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements disclosed the following immaterial instance of noncompliance with other state laws and regulations. Our finding and recommendation and your response is as follows:

**1. Finding**

MS Code Section 31-7-13 requires that the district receive at least two written bids or purchase items at state contract price or the commodity must be purchased at or below state contract price for purchases between \$3,501 and \$15,000. We noted one purchase in our testing of general disbursements that should have been purchased using the process listed above but was not.

Recommendation

We recommend the district comply with MS Code Section 31-7-13 regarding purchases between \$3,501 and \$15,000

School District Response

The Louisville Municipal School District will comply with MS Code Section 31-7-13 regarding purchases between \$3,501 and \$15,000.

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

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

Watkins, Ward and Stafford, PLLC  
Louisville, Mississippi  
February 1, 2007

*Watkins, Ward and Stafford, PLLC*

**LOUISVILLE MUNICIPAL SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

Section 1: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

- |  |             |
|--|-------------|
| 4. Type of auditor's report issued on compliance for major federal program:  | Unqualified |
| 5. Internal control over major program:  |             |
| 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?   | No          |
| 7. Federal programs identified as major programs:  |             |
| Title I grants to local educational agencies<br>CFDA #84.010   |             |
| Special education cluster<br>CFDA #84.027<br>CFDA #84.173  |             |
| 8. The dollar threshold used to distinguish between type A and type B programs:  | \$300,000   |
| 9. Auditee qualified as a low-risk auditee?  | Yes         |
| 10. Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____.315(b) of OMB Circular A-133? | No          |

## Section 2: Financial Statement Findings

### 06-1 Finding

Per examination of a sample of payroll disbursements it was noted that one teacher was paid in excess of her contract and board approved amount. The teacher was overpaid by \$1,598.

#### Recommendation

We recommend the district pay all employees within board approved amounts.

### 06-2 Finding

Per examination of activity fund receipts it was noted that athletic event transmittal forms submitted to the central office were not being completed in their entirety. These forms should list the beginning and ending ticket numbers, a recalculation of tickets sold multiplied by the applicable ticket price, the cashiers' signatures verifying the cash collected, and the applicable principal's signature verifying the information. The transmittal reports should be submitted to the central office on at least a monthly basis along with the monthly activity/agency fund transmittal report. We also tested all high school football gates and tried to trace the gate back to an athletic event transmittal report. We noted that two football games at Nanih Waiya could not be traced to an athletic event transmittal report.

#### Recommendation

We recommend the district implement procedures to ensure that athletic event transmittal sheets are completed in their entirety and properly verified and submitted to the central office.

## Section 3: Federal Award Findings and Questioned Costs

### 06-3 Finding

Program: (Special education cluster CFDA #87.027 and 84.173; Department of Education)

Compliance requirement: allowable costs/cost principles

Costs charged to the special education program should be supported by appropriate documentation. Per examination of payroll disbursements it was noted that one teacher was paid in excess of their contract and board approved amount.

Questioned Costs: The amount that the teacher was overpaid during the fiscal year was \$1,598.

#### Recommendation

We recommend the district pay all employees within board approved amounts and within contract amounts, if applicable.

**LOUISVILLE MUNICIPAL SCHOOL DISTRICT**

**AUDITEE'S CORRECTIVE ACTION PLAN**

Louisville Municipal School District  
Audit Findings  
FYE 6/30/2006

Finding

MS Code Section 31-7-13 requires that the district receive at least two written bids or purchase items at state contract price or the commodity must be purchased at or below state contract price for purchases between \$3,501 and \$15,000. We noted one purchase in our testing of general disbursements that should have been purchased using the process listed above but was not.

Recommendation

We recommend the district comply with MS Code Section 31-7-13 regarding purchases between \$3,501 and \$15,000.

School District Response

The Louisville Municipal School District will comply with MS Code Section 31-7-13 regarding purchases between \$3,501 and \$15,000. We will keep a closer check on all purchases to see that proper procedures are being followed.

06-1 Finding

Per examination of a sample of payroll disbursements it was noted that one teacher was paid in excess of her contract and board approved amount. The teacher was overpaid by \$1,598. (Note: Teacher was paid out of the special education program.)

Recommendation

We recommend the district pay all employees within board approved amounts.

Corrective Action Plan Required

This was a psychometrist who received an advanced degree after the school year started. For some reason, even though her pay status was changed, the revised contract did not get signed. We will make greater effort to see that pay status changes for contractual personnel are not put into effect until a signed contract is in hand and filed.

06-2 Finding

Per examination of activity fund receipts it was noted that athletic event transmittal forms submitted to the central office were not being completed in their entirety. These forms should list the beginning and ending ticket numbers, a recalculation of tickets so multiplied by the applicable ticket price, the cashiers' signatures verifying the cash collected, and the applicable principal's signature verifying the information. The transmittal reports should be submitted to the central office on at least a monthly basis along with the monthly activity/agency fund transmittal report. We also tested all high school football gates and tried to trace the gate back to an athletic event transmittal report. We noted that two football gates at Nanih Waiya could not be traced to an athletic event transmittal report.

Recommendation

We recommend the district implement procedures to ensure that athletic event transmittal sheets are completed in their entirety and properly verified and submitted to the central office.

Corrective Action Plan Required

New forms have been implemented requiring two people to work at each gate and to sign off on the form after they have counted the money. The principal is also supposed to sign off before the form is sent to Central Office. Someone in Central Office will verify the ticket count and money collected and the signatures.

06-3 Finding

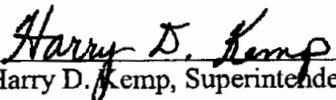
Per examination of a sample of payroll disbursements it was noted that one teacher was paid in excess of her contract and board approved amount. The teacher was overpaid by \$1,598. (Note: Teacher was paid out of the special education program.)

Recommendation

We recommend the district pay all employees within board approved amounts.

Corrective Action Plan Required

This was a part time psychometrist who received an advanced degree after the school year started. For some reason, even though her pay status was changed, the revised contract did not get signed. We will make greater effort to see that pay status changes for contractual personnel are not put into effect until a signed contract is in hand and filed.

  
Harry D. Kemp, Superintendent