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**Yazoo City Municipal  
School District**  
Audited Financial Statements  
June 30, 2006

**J.E. Fortenberry, III, PC**  
Certified Public Accountant

FINANCIAL AUDIT REPORT

**Yazoo City Municipal School District  
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INDEPENDENT AUDITOR'S REPORT  
ON THE BASIC FINANCIAL STATEMENTS  
ACCOMPANIED BY REQUIRED SUPPLEMENTARY  
INFORMATION AND SUPPLEMENTAL INFORMATION

**J.E. FORTENBERRY, III, PC**  
**Certified Public Accountant**

**INDEPENDENT AUDITOR'S REPORT ON THE BASIC FINANCIAL  
STATEMENTS ACCOMPANIED BY REQUIRED SUPPLEMENTARY  
INFORMATION AND SUPPLEMENTARY INFORMATION**

Superintendent and School Board  
Yazoo City Municipal School District

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

I conducted my 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 I 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. I believe that my audit provides a reasonable basis for my opinions.

In my opinion the financial statements, referred to above, present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Yazoo City Municipal School District, as of June 30, 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*, I have also issued my report dated May 21, 2008 on my consideration of the Yazoo City Municipal School District's internal control over financial reporting and my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

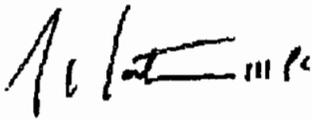
The Management's Discussion and Analysis on pages 8 through 15 and the Budgetary Comparison Schedules and corresponding notes on pages 42 through 45 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express

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no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Yazoo City Municipal School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. In addition, the Schedule of Instructional, Administrative, and Other Expenditures - Governmental Funds 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 my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



J.E. Fortenberry, III, PC  
May 21, 2008

Certified Public Accountant

MANAGEMENT'S DISCUSSION AND ANALYSIS

**YAZOO CITY MUNICIPAL SCHOOL DISTRICT  
MANAGEMENT DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2006**

The discussion and analysis of Yazoo City Municipal School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2006. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

#### FINANCIAL HIGHLIGHTS

- Total net assets decreased \$560,426, which represents a 9% decrease from fiscal year 2005. This amount includes a prior period adjustment of \$1,256,793 mainly due to properly state capital assets.
- General revenues account for \$12,609,943, or 66% of all revenues. The general revenues for 2005 consisted of \$14,484,979, or 71% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$6,535,611, 34% of total revenues compared to \$5,975,066 in 2005.
- The district had \$19,705,980 in expenses, amount that increased when compared with the \$18,741,358 in expenses for the prior year; only \$6,535,611 of these expenses were offset by program specific charges for services, grants, and contributions. General revenues of \$12,609,943 were adequate to provide for these programs.
- Among major funds, the General Fund had \$12,580,747 in revenues and \$12,599,702 in expenditures. In 2005 the General Fund had \$13,530,590 in revenues and \$11,720,879 in expenditures. Elimination of old items from books were primary factors contributing to the General Fund's fund balance decrease of \$713,701.
- Capital assets, net of accumulated depreciation, decreased by \$1,328,674 due primarily to adjustments made to correctly state capital assets.
- Long-term debt decreased by \$628,600.

#### 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 and other expenses on long-term liabilities.

The government-wide financial statements can be found on pages 17 and 18 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 financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in

fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 20 and 22, 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 19 and 21 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 23.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25-40 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 special revenue fund. This required supplementary information can be found on pages 42-45 of this report.

Additionally, a schedule of federal awards, required by OMB Cir. A-133 and a schedule of instructional, administrative, and other expenditures for governmental funds can be found on pages 47 and 48 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 \$4,745,680 as of June 30, 2006.

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

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

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

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

	<u>2006</u>	<u>2005</u>	<u>Percentage Change</u>
<b>Assets</b>			
Current assets	\$ 5,114,316	4,955,036	3%
Capital assets, net	<u>11,060,091</u>	<u>12,388,765</u>	-11%
<b>Total assets</b>	16,174,407	17,343,801	-7%
<b>Liabilities</b>			
Current liabilities	1,859,137	1,324,504	40%
Long-term liabilities	<u>9,569,590</u>	<u>9,456,398</u>	1%
<b>Total liabilities</b>	11,428,727	10,780,902	6%
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	1,602,564	2,275,723	-30%
Restricted	1,731,924	1,930,658	-10%
Unrestricted	<u>1,411,192</u>	<u>2,356,518</u>	-40%
<b>Total Net Assets</b>	\$ 4,745,680	6,562,899	-28%

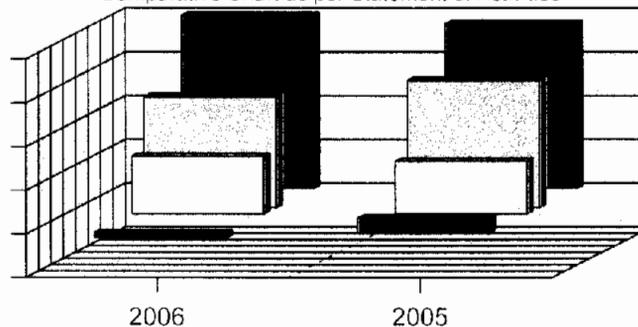
The following are significant current year transactions that have had an impact on the Statement of Net Assets.

- The principal retirement of \$655,515 of long-term debt.

**Changes in net assets.** The District's total revenues for the fiscal year ended June 30, 2006 were \$19,145,554. The total cost of all programs and services was \$19,705,980. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2006, and 2005, respectively.

	2006	2005	Percentage Change
<b>Revenues</b>			
<b><u>Program Revenues</u></b>			
Charges for services	\$ 733,751	303,990	141%
Operating Grants and Contributions	5,801,860	5,558,461	4%
Capital Grants and Contributions	-	112,615	-100%
Total Program Revenues	6,535,611	5,975,066	9%
<b><u>General Revenues</u></b>			
Property Taxes	1,731,338	1,702,356	2%
Unrestricted Grants and Contributions	10,715,109	12,195,423	-12%
Unrestricted Investment Earnings	109,728	43,052	155%
Sixteenth Section Sources	22,153	285,395	-92%
Other	31,615	258,753	-88%
Total General Revenues	12,609,943	14,484,979	-13%
<b>Total revenues</b>	<b>19,145,554</b>	<b>20,460,045</b>	<b>-6%</b>
<b>Expenses</b>			
Instruction	11,213,708	10,114,093	11%
Support services	6,262,918	6,248,174	0%
Non-instructional	1,858,124	1,785,177	4%
Interest on long-term liabilities	371,195	593,914	-38%
Sixteenth section	35	-	100%
<b>Total expenses</b>	<b>19,705,980</b>	<b>18,741,358</b>	<b>5%</b>
Increase (Decrease) in net assets	(560,426)	1,718,687	-133%
Net Assets, July 1	6,562,899	4,844,212	35%
Prior Period Adjustment	(1,256,793)	-	0%
Net Assets, July 1, Restated	5,306,106	4,844,212	10%
<b>Net Assets, June 30</b>	<b>\$ 4,745,680</b>	<b>6,562,899</b>	<b>-28%</b>

Comparative Chart as per Statement of Activities

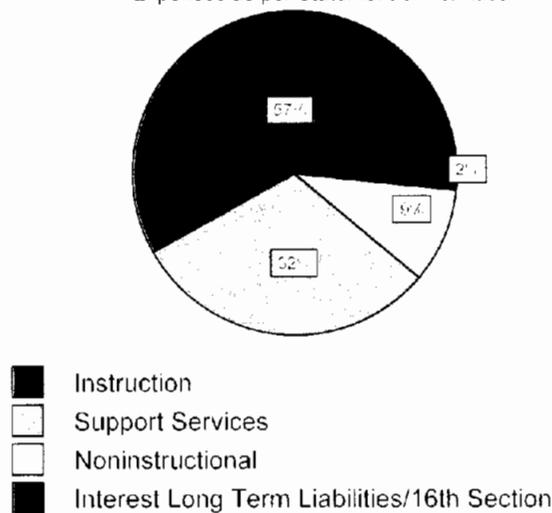


- Expenses
- General Revenues
- Program Revenues
- Increase/Decrease in Net Assets

- Net cost of governmental activities (\$13,170,369), was financed by general revenue, which is made up of primarily property taxes (\$1,731,338) and state revenue (\$10,662,705).
- Investment earning accounted for \$109,728 of funding.

**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 contribution of the State and District's taxpayers by each of these functions.

Expenses as per Statement of Activities



## 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 \$3,333,375, a decrease of \$1,244,117. \$2,524,169 or 76% of the fund balance constitutes unreserved and undesignated fund balance. Although fund balances for activity funds, grant/project funds, capital project funds and debt service funds are classified as unreserved funds

on the governmental funds Balance Sheet, these funds are not all available for spending at the district's discretion. For example, debt service fund balance is to be used to retire the District's debt. Federal project and other grant funds received must be used to meet specific objectives as set forth in the grant application. The remaining fund balance of \$809,206 or 24% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was \$713,701. The fund balance of Other Governmental Funds showed a decrease of \$446,816. In keeping with the District's goals to provide a safe and comfortable environment to facilitate instruction, major expenditures for textbooks, school buses, and district-wide facility improvements, some of which were not capitalized, contributed to the decreased fund balance for the year ended June 30, 2006. Economic factors led to significantly higher utility costs and bus fuel costs for the year ended June 30, 2006.

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the District revised the annual operating budget. Historical data, tentative allocations of state and federal funds, legislative mandates, and anticipated needs are used to determine original budget amounts.

The District's original budget was prepared with the district's goals and long range commitments in mind, using historical data, tentative allocations or estimates of state and federal funds, legislative mandates, staffing studies, and current and anticipated needs. Over the course of the year, the District revised the annual operating budget as changes occurred.

Budget amounts for revenue from local, state and federal sources in the General Fund were increased primarily due to more MAEP funding.

Budget amounts for expenditures were amended as funding sources/amounts changed. In FY 06 increases were made for higher costs of bus fuel and utilities and the continuation of district-wide facility improvement projects.

At the time the original budget was prepared only estimates were available for federal funding. Typically original budgets are prepared using prior year allocation as estimates. Once federal awards were known, budgets were amended to the actual grant award amount.

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

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of June 30, 2006, the District's total capital assets were \$15,995,523, including land, school buildings, buses, other school vehicles, furniture and equipment, and construction in progress. This amount represents a decrease of \$1,213,798 from the previous year. Total accumulated depreciation as of June 30, 2006 was \$4,935,432 and total depreciation expense for the year was \$240,176, resulting in total net capital assets of \$11,060,091.

	<u>Capital Assets, Net of Depreciation</u>		<u>Percentage Change</u>
	<u>2006</u>	<u>2005</u>	
Land	\$ 602,643	604,644	0%
Buildings	8,003,258	10,906,845	-27%
Improvements other than buildings	240,224	101,889	136%
Mobile equipment	314,076	216,265	45%
Furniture and equipment	1,887,699	546,931	245%
Leased property under capital leases	12,191	12,191	0%
	<u>\$ 11,060,091</u>	<u>12,388,765</u>	-11%

Additional information of the District's capital assets can be found in Note 5 on page 34 of this report.

**Debt Administration.** At June 30, 2006, the District had \$4,560,000 in general obligation bonds outstanding and \$5,009,590 other long-term debt outstanding, of which \$709,524 is due within one year.

			<u>Percentage Change</u>
	<u>2006</u>	<u>2005</u>	
General obligation bonds payable	\$ 4,560,000	4,755,000	-4%
Limited obligation bonds payable	2,815,000	2,985,000	-6%
Limited tax notes payable	1,595,000	1,710,000	-7%
Obligations under energy efficiency lease	475,027	645,542	-26%
Other notes payable	12,500	17,500	-29%
Compensated absences	112,063	85,148	32%
	<u>\$ 9,569,590</u>	<u>10,198,190</u>	-6%

The District maintains a AA bond rating.

Additional information of the District's long-term debt can be found in Note 6 on page 34 of this report.

## **CURRENT ISSUES**

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

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

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

If you have questions about this report, contact the Superintendent's Office of the Yazoo City Municipal School District, 1133 Calhoun Avenue, Yazoo City, MS 39194.

## FINANCIAL STATEMENTS

# YAZOO CITY MUNICIPAL SCHOOL DISTRICT

## STATEMENT OF NET ASSETS

JUNE 30, 2006

	Governmental Activities
<b>ASSETS AND OTHER DEBITS</b>	
Assets:	
Cash and other deposits	\$ 3,460,831
Cash with fiscal agents	46,130
Due from other governments	1,405,042
Other receivables, net	1,043
Inventories and prepaid items	32,810
Restricted Assets	168,460
Capital assets, not being depreciated:	
Land	602,643
Capital Assets, net of accumulated depreciation	
Buildings	8,003,258
Improvements other than buildings	240,224
Mobile equipment	314,076
Furniture and equipment	1,887,699
Leased property under capital leases	12,191
Total Assets	<u>16,174,407</u>
Liabilities	
Accounts payable and accrued liabilities	803,321
Due to other governments	977,620
Interest payable on long-term liabilities	78,196
Long-term liabilities (due within one year):	
Capital related liabilities	709,524
Long-term liabilities (due beyond one year)	
Capital related liabilities	8,748,003
Non-capital related liabilities	112,063
Total Liabilities	<u>11,428,727</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	1,602,564
Restricted For:	
School Based Activities	837,295
Debt Service	416,691
Capital Improvements	221,760
Forestry	3,127
Unemployment	56,560
Sixteenth Section	
Expendable	28,031
Nonexpendable	168,460
Unrestricted	1,411,192
<b>Total Net Assets</b>	<u><u>\$ 4,745,680</u></u>

The accompanying notes are an integral part of this statement.

**YAZOO CITY MUNICIPAL SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2006**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Primary government				
Governmental Activities:				
<i>Instruction</i>	11,213,708	579,687	1,612,040	(9,021,981)
<i>Support services</i>	6,262,918	--	492,599	(5,770,319)
<i>Noninstructional services</i>	1,858,124	154,064	3,697,221	1,993,161
<i>Sixteenth section</i>	35	--	--	(35)
<i>Interest on long-term liabilities</i>	371,195	--	--	(371,195)
Total Primary Government	<u>\$ 19,705,980</u>	<u>\$ 733,751</u>	<u>\$ 5,801,860</u>	<u>(13,170,369)</u>
General Revenues:				
Taxes:				
<i>General purpose levies</i>				1,171,631
<i>Debt purpose levies</i>				559,486
<i>Gaming</i>				221
Unrestricted grants and contributions:				
<i>State</i>				10,662,705
<i>Federal</i>				52,404
<i>Unrestricted investment earnings</i>				109,728
<i>Sixteenth section sources</i>				22,153
<i>Other</i>				31,615
Total general revenues				<u>12,609,943</u>
Change in Net Assets				(560,426)
Net Assets - Beginning				6,562,899
Prior Period Adjustment				<u>(1,256,793)</u>
Net Assets - Restated				5,306,106
Net Assets - Ending				<u>\$ 4,745,680</u>

The accompanying notes are an integral part of this statement.

**YAZOO CITY MUNICIPAL SCHOOL DISTRICT**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2006**

	General Fund	Title I Basic FYE - 2003	Limited Tax Note Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
<i>Cash and cash equivalents</i>	\$ 1,886,438	--	287,073	1,455,780	\$ 3,629,291
<i>Cash with fiscal agents</i>	--	--	--	46,130	46,130
<i>Due from other governments</i>	116,569	826,826	--	360,550	1,303,945
<i>Other receivables, net</i>	743	300	--	--	1,043
<i>Due from other funds</i>	437,799	--	--	370,869	808,668
<i>Inventories and prepaid items</i>	--	--	--	32,810	32,810
<b>Total Assets</b>	<b>\$ 2,441,549</b>	<b>827,126</b>	<b>287,073</b>	<b>2,266,139</b>	<b>\$ 5,821,887</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
<i>Accounts payable and accrued liabilities</i>	\$ 26,413	713,378	--	63,530	\$ 803,321
<i>Due to other funds</i>	772,319	113,748	289,868	509,256	1,685,191
<b>Total Liabilities</b>	<b>798,732</b>	<b>827,126</b>	<b>289,868</b>	<b>572,786</b>	<b>2,488,512</b>
<b>Fund balances:</b>					
<b>Reserved for:</b>					
<i>Inventory</i>	--	--	--	32,810	32,810
<i>Forestry</i>	--	--	--	3,127	3,127
<i>Unemployment</i>	--	--	--	56,560	56,560
<i>Permanent funds</i>	--	--	--	196,491	196,491
<i>Capital project funds</i>	--	--	--	221,760	221,760
<i>Debt service funds</i>	--	--	(2,795)	301,253	301,253
<b>Unreserved, undesignated, reported in:</b>					
<i>General fund</i>	1,642,817	--	--	--	1,642,817
<i>Special Revenue funds</i>	--	--	--	881,352	881,352
<b>Total Fund Balances</b>	<b>1,642,817</b>	<b>--</b>	<b>(2,795)</b>	<b>1,693,353</b>	<b>3,333,375</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,441,549</b>	<b>827,126</b>	<b>287,073</b>	<b>2,266,139</b>	<b>\$ 5,821,887</b>

The accompanying notes are an integral part of this statement.

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

Total fund balances - governmental funds balance sheet	\$ 3,333,375
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not reported in the funds.	11,060,091
Liabilities due in one year are not recognized in the funds.	(709,524)
Payables for bond principal which are not due in the current period are not reported in the funds.	(6,975,000)
Payables for capital leases which are not due in the current period are not reported in the funds.	(295,503)
Payables for bond interest which are not due in the current period are not reported in the funds.	(78,196)
Payables for notes which are not due in the current period are not reported in the funds.	(1,470,000)
Payables for compensated absences not due in the current period are not reported in the funds.	(112,063)
Other long-term liabilities not due and payable in the current period are not reported in the funds.	<u>(7,500)</u>
Net assets of governmental activities - statement of net assets	<u>\$ 4,745,680</u>

The accompanying notes are an integral part of this statement.

**YAZOO CITY MUNICIPAL SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	General Fund	Title I Basic FYE - 2003	Limited Tax Note Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenue:</b>					
<i>Local sources</i>	\$ 1,826,678	--	129,411	650,343	\$ 2,606,432
<i>State sources</i>	10,663,469	--	--	318,480	10,981,949
<i>Federal sources</i>	90,600	2,030,181	--	3,414,239	5,535,020
<i>Sixteenth section sources</i>	--	--	--	22,153	22,153
<b>Total revenues</b>	<b>12,580,747</b>	<b>2,030,181</b>	<b>129,411</b>	<b>4,405,215</b>	<b>19,145,554</b>
<b>Expenditures:</b>					
<i>Instruction</i>	8,610,792	947,653	--	1,654,978	11,213,423
<i>Support services</i>	3,813,395	682,682	35	1,660,253	6,156,365
<i>Noninstructional services</i>	--	156,403	--	1,642,487	1,798,890
<i>Sixteenth section</i>	--	--	--	35	35
<i>Debt service:</i>					
<i>Principal</i>	175,515	--	115,000	365,000	655,515
<i>Interest</i>	--	--	125,659	439,284	564,943
<i>Other</i>	--	--	--	500	500
<b>Total expenditures</b>	<b>12,599,702</b>	<b>1,786,738</b>	<b>240,694</b>	<b>5,762,537</b>	<b>20,389,671</b>
<b>Excess (deficiency) of revenues (over) expenditures</b>	<b>(18,955)</b>	<b>243,443</b>	<b>(111,283)</b>	<b>(1,357,322)</b>	<b>(1,244,117)</b>
<b>Other financing sources (uses):</b>					
<i>Operating transfers in</i>	--	--	27,683	1,034,358	1,062,041
<i>Operating transfers out</i>	(694,746)	(243,443)	--	(123,852)	(1,062,041)
<b>Total other financing sources (uses)</b>	<b>(694,746)</b>	<b>(243,443)</b>	<b>27,683</b>	<b>910,506</b>	<b>--</b>
<b>Net change in fund balance</b>	<b>(713,701)</b>	<b>--</b>	<b>(83,600)</b>	<b>(446,816)</b>	<b>(1,244,117)</b>
<b>Fund Balances:</b>					
<i>July 1, 2006</i>	2,356,518	--	80,805	2,071,603	4,508,926
<i>Prior period adjustments</i>	--	--	--	76,867	76,867
<i>July 1, 2006 as restated</i>	2,356,518	--	80,805	2,148,470	4,585,793
<i>Increase (decrease) in reserve for inventory</i>	--	--	--	(8,301)	(8,301)
<b>June 30, 2007</b>	<b>\$ 1,642,817</b>	<b>--</b>	<b>(2,795)</b>	<b>1,693,353</b>	<b>\$ 3,333,375</b>

The accompanying notes are an integral part of this statement.

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

Net change in fund balances - total governmental funds	\$ (1,244,117)
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	291,300
The depreciation of capital assets used in governmental activities is not reported in the funds.	(240,176)
The gain or loss on the sale of capital assets is not reported in the funds.	(105,965)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	370,000
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	170,515
Notes principal payments is an expenditure in the funds but not an expense in the SOA.	115,000
(Increase) decrease in accrued interest from beginning of period to end of period	118,233
Compensated absences are reported as amount earned in SOA but as amount paid in the funds.	(26,915)
Change in inventory is adjustment to fund balance in the funds but affects expense in the SOA.	<u>(8,301)</u>
Change in net assets of governmental activities - statement of activities	<u>\$ (560,426)</u>

The accompanying notes are an integral part of this statement.

**YAZOO CITY MUNICIPAL SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**JUNE 30, 2006**

	<u>Agency Funds</u>
<b>ASSETS</b>	
Assets:	
<i>Cash and other deposits</i>	\$ 677,832
<i>Accrued interest receivable</i>	535
<i>Other receivable</i>	1,759
<i>Due from other funds</i>	977,620
<b>Total Assets</b>	<b><u>\$ 1,657,746</u></b>
<b>LIABILITIES</b>	
Liabilities:	
<i>Accounts Payable &amp; Accrued Liabilities</i>	\$ 1,530,063
<i>Due to student clubs</i>	26,586
<i>Due to other funds</i>	101,097
<b>Total Liabilities</b>	<b><u>\$ 1,657,746</u></b>

The accompanying notes are an integral part of this statement.

**Yazoo City Municipal School District**

Notes to the Financial Statements  
June 30, 2006

## Yazoo City 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 an "other stand-alone" government. The school district is a related organization of, but not a component unit of, the city of Yazoo City since the governing authority of the city selects a majority of the school district's board but does not have financial accountability for the school district.

#### B. Basis of Presentation.

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

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

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

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

## Yazoo City Municipal School District

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

program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the school district.

### ***Fund Financial Statements:***

Fund financial statements of the reporting entity 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.

**Title I Fund** - This fund accounts for the transactions of the Title I Grant. This is a federal grant available to local educational agencies.

**Limited Tax Note Fund** - This fund serves to account for funds from a limited tax

## Yazoo City Municipal School District

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

note that was issued for capital improvements.

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

Additionally the school district reports the following fund types:

### GOVERNMENTAL FUNDS

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

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

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

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

### FIDUCIARY FUNDS

Agency Funds - Agency Funds are used to report resources held by the district in a purely custodial capacity (assets equal liabilities) and do not involve measurement of result 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 the *Financial Accounting for Local and State School Systems, 2003* issued by the U.S. Department of Education.

#### E. Encumbrances.

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

#### F. Cash and Cash Equivalents.

## Yazoo City Municipal School District

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

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 account and certificates of deposit with original maturities of three months or less. Cash and cash equivalents are valued at cost.

### G. Investments.

The school district can invest its excess funds, as permitted by Section 29-3-113 Miss. Code Ann. (1972), in interest-bearing deposits or other obligations of the type described in Sections 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 of greater than three 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 cost of governmental fund type inventories are reported as expenditures when purchased.

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

### I. Capital Assets.

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

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

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

**Yazoo City Municipal School District**

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

basis for all assets, except land. The following schedule details those thresholds.

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

**K. Interfund Transactions and Balances.**

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

Short-term (due within one year) interfund 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.

## Yazoo City Municipal School District

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

### L. Equity Classifications.

#### ***Government-Wide Financial Statements:***

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

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

#### ***Fund Financial Statements:***

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

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

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

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

Reserved for permanent fund - 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.

## Yazoo City Municipal School District

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

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

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

Unreserved, undesignated - they represent portions of fund equity that are not legally segregated for a specific future use and are available for current operations.

### M. Property Taxes.

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

### N. Mississippi Adequate Education Program Revenues.

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

### O. Compensated Absences.

Employees of the school district accumulate sick leave at a minimum amount as required by state law or at a greater amount provided by school district policy. Some employees are allowed personal 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.

## Yazoo City Municipal School District

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

As required, the Yazoo City 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.

### (3) Cash and Cash Equivalents, and Cash with Fiscal Agents.

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

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

**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. Amount less than \$100 can be credited to the General Fund.

**Yazoo City Municipal School District**

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

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$3,629,291, and \$677,832 respectively. The carrying amount of deposits reported in the government-wide financial statements was: cash and cash equivalents - \$3,460,831 and restricted assets - \$168,460. The restricted assets of \$168,460 represent the cash balance of the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$3,997,933.

*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 the 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 \$3,997,933 was exposed to custodial credit risk.

Cash with Fiscal Agent.

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$46,130.

(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	\$ 437,799	\$ 772,319
Title I Fund	0	113,748
Limited Tax Note Fund	0	289,868
Other governmental funds	370,869	509,256
Fiduciary Funds	<u>977,620</u>	<u>101,097</u>
Total Funds	\$1,786,288	\$1,786,288

The purpose of the Due From/To other funds balances was to eliminate deficit cash balances. All balances are expected to be repaid within one year from the date of the financial statements.

B. Transfers In/Out

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
General Fund	\$ 0	\$ 694,746
Title I Fund	0	243,443

# Yazoo City Municipal School District

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

Limited Tax Note Fund	27,683	0
Other Governmental Funds	<u>1,034,358</u>	<u>123,852</u>
Total Funds	\$ 1,062,041	\$1,062,041

The purpose of the transfers was to reimburse federal administrative costs, to move indirect cost to operating account, etc. All transfers were routine and consistent with the fund making the transfer.

### (5) Capital Assets.

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

	Balance 7-01-2005	Additions	Retirements	Adjustments	Balance 6-30-2006
<u>Non-depreciable capital assets:</u>					
Land	\$ 604,644			(2,001)	602,643
Total non-depreciable capital assets	<u>604,644</u>			<u>(2,001)</u>	<u>602,643</u>
<u>Depreciable capital assets:</u>					
Buildings	14,848,378			(2,709,537)	12,138,841
Improvements other than buildings	188,811			141,915	330,726
Mobile equipment	653,835	122,962		(12,479)	764,318
Furniture and equipment	885,718	168,338	127,758	1,204,762	2,131,060
Leased property under capital leases	27,935				27,935
Total depreciable capital assets	<u>16,604,677</u>	<u>291,300</u>	<u>127,758</u>	<u>(1,375,339)</u>	<u>15,392,880</u>
<u>Less accumulated depreciation for:</u>					
Buildings	3,941,533	194,050			4,135,583
Improvements other than buildings	86,922	3,580			90,502
Mobile equipment	437,570	36,961		(24,289)	450,242
Furniture and equipment	338,787	5,585	21,793	(79,218)	243,361
Leased property under capital leases	15,744				15,744
Total accumulated depreciation	<u>4,820,556</u>	<u>240,176</u>	<u>21,793</u>	<u>(103,507)</u>	<u>4,935,432</u>
Total depreciable capital assets, net	<u>11,784,121</u>	<u>51,124</u>	<u>105,965</u>	<u>(1,271,832)</u>	<u>10,457,448</u>
Governmental activities capital assets, net	\$ <u>12,388,765</u>	<u>51,124</u>	<u>105,965</u>	<u>(1,273,833)</u>	<u>11,060,091</u>

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$ 168,123

**Yazoo City Municipal School District**

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

Support Services	48,035
Non-instructional	<u>24,018</u>
<b>Total depreciation expense</b>	<b><u>\$ 240,176</u></b>

The purpose of the \$1,273,833 adjustment was to bring prior year totals per the general ledger, to amounts actually reported in the prior year audit.

(6) Long-term liabilities.

The following is a summary of changes in general 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. General obligation bonds payable	\$ 4,755,000		195,000	4,560,000	220,000
B. Limited obligation bonds payable	2,985,000		170,000	2,815,000	180,000
C. Limited tax notes payable	1,710,000		115,000	1,595,000	125,000
D. Obligations under energy efficient leases	645,542		170,515	475,027	179,524
E. Other notes payable	17,500		5,000	12,500	5,000
F. Compensated absences payable	85,148	26,915		112,063	
<b>Total</b>	<b>\$ 10,198,190</b>	<b>26,915</b>	<b>655,515</b>	<b>9,569,590</b>	<b>709,524</b>

A. General obligation bonds payable.

General obligation bonds are direct obligations and pledge the full faith and credit of the school district. General obligation bonds currently outstanding are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General obligation bonds, Series 2000	Varies	09-01-00	09-01-20	\$ 5,435,000	4,560,000
<b>Total</b>				<b>\$ 5,435,000</b>	<b>4,560,000</b>

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

Year Ending June 30	Principal	Interest	Total
2007	\$ 220,000	230,480	450,480
2008	220,000	215,080	435,080
2009	230,000	200,940	430,940
2010	240,000	188,500	428,500
2011	255,000	176,125	431,125
2012 - 2016	1,485,000	670,625	2,155,625
2017 - 2021	<u>1,910,000</u>	<u>248,000</u>	<u>2,158,000</u>

## Yazoo City Municipal School District

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

	Total	\$	<u>4,560,000</u>	<u>1,929,750</u>	<u>6,489,750</u>
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The amount of bonded indebtedness that can be incurred by the school district is limited by state statute. Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in state statutes, have been met. As of June 30, 2006, the amount of outstanding bonded indebtedness was equal to 11% of property assessments as of October 1, 2005. This debt will be retired from the Bond Issue Retirement Fund.

### B. Limited obligation bonds payable.

Limited obligation bonds are direct obligations and pledge the full faith and credit of the school district. Limited obligation bonds currently outstanding are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital improvement	Varies	03-01-98	03-01-18	\$ 3,800,000	2,815,000
Total				\$ <u>3,800,000</u>	<u>2,815,000</u>

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

Year Ending June 30	Principal	Interest	Total
2007	\$ 180,000	131,040	311,040
2008	190,000	120,465	310,465
2009	200,000	109,825	309,825
2010	210,000	101,025	311,025
2011	215,000	91,575	306,575
2012 - 2016	1,240,000	303,075	1,543,075
2017 - 2018	<u>580,000</u>	<u>39,375</u>	<u>619,375</u>
Total	\$ <u>2,815,000</u>	<u>896,380</u>	<u>3,711,380</u>

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

**Yazoo City Municipal School District**

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

C. Limited tax notes payable.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Limited Tax Notes, Series 2001	4.4 - 5.7%	03-01-01	03-01-16	\$ 1,925,000	1,595,000
Total				\$ <u>1,925,000</u>	<u>1,595,000</u>

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

Year Ending June 30	Principal	Interest	Total
2007	\$ 125,000	69,948	194,948
2008	130,000	63,073	193,073
2009	135,000	57,873	192,873
2010	145,000	52,338	197,338
2011	155,000	46,248	201,248
2012 - 2016	<u>905,000</u>	<u>124,140</u>	<u>1,029,140</u>
Total	\$ <u>1,595,000</u>	<u>413,620</u>	<u>2,008,620</u>

This debt will be retired from the Limited Tax Note Fund.

D. Obligations under energy efficiency lease.

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

Year Ending June 30	Principal	Interest and Maintenance Charges	Total
2007	\$ 179,524	20,644	200,168
2008	189,094	11,374	200,468
2009	<u>106,409</u>	<u>2,041</u>	<u>108,450</u>
Total	\$ <u>475,027</u>	<u>34,059</u>	<u>509,086</u>

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

## Yazoo City Municipal School District

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

The agreement authorized the borrowing of \$1,568,272 for the purchase of energy efficiency equipment, machinery, supplies building modifications and other energy saving items. Payments of the lease shall be made from the district maintenance fund and not exceed ten (10) years.

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

Upon written notice to the lessor, the lessee has the option of repaying the total amount due as set forth by the agreement. This debt will be retired from the District Maintenance Fund.

### E. Other Notes Payable (Asbestos Loan Payable).

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

Year Ending June 30	Principal	Interest	Total
2007	\$ 5,000	0	5,000
2008	5,000	0	5,000
2009	2,500	0	2,500
Total	\$ <u>12,500</u>	<u>0</u>	<u>12,500</u>

This debt will be retired from the District Maintenance Fund.

### F. Compensated Absences.

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

### (7) Defined Benefit Pension Plan.

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

**Yazoo City Municipal School District**

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

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 rate for fiscal year ending June 30, 2006 was 10.75% of the annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2006, 2005 and 2004 were \$1,241,119, \$1,163,410 and \$1,095,116, respectively, which equaled the required contributions for each year.

(8) Sixteenth Section Lands.

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

Year Ending	
<u>June 30,</u>	<u>Amount</u>
2007	<u>\$ 19,943</u>

(9) Prior Period Adjustments/Exhibits.

A summary of significant fund equity adjustments is as follows:

Exhibit B - Statement of Activities

<u>Explanation(s)</u>	<u>Amount</u>
1. To adjust capital assets to match records	\$ 1,273,833
2. To correct sixteenth section lease receivable amount.	59,827
3. To adjust deferred revenue from prior year	<u>(76,867)</u>
Total	\$ <u><u>1,256,793</u></u>

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

<u>Major Funds</u>	<u>Explanation(s)</u>	<u>Amount</u>
		\$

**Yazoo City Municipal School District**

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

Other governmental funds	To adjust deferred revenue from prior year	<u>76,867</u>
	Total	\$ <u><u>76,867</u></u>

(10) Risk Management.

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

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 Workman's Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Bancorp South in Jackson, Mississippi. 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.

(11) Negative Fund Balance.

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

<u>Fund</u>	<u>Fund Balance</u>
Limited Tax Note	\$ (2,795)

The deficit fund balance is in violation of Section 37-61-19, Miss. Code Ann. (1972). This deficits could have been eliminated with a transfer from the District Maintenance Fund (General Fund). Section 37-61-21, Miss. Code Ann. (1972), allows the school board of the school district, with the assistance from the superintendent, to transfer resources to and from functions and funds within the budget when and where needed under certain circumstances.

REQUIRED SUPPLEMENTARY INFORMATION

**YAZOO CITY MUNICIPAL SCHOOL DISTRICT**

Exhibit 1

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	\$ 2,579,674	2,119,159	1,826,678	(460,515)	(292,481)
State sources	11,235,909	12,481,511	10,663,469	1,245,602	(1,818,042)
Federal sources	101,784	86,213	90,600	(15,571)	4,387
<b>Total Revenues</b>	<b>13,917,367</b>	<b>14,686,883</b>	<b>12,580,747</b>	<b>769,516</b>	<b>(2,106,136)</b>
<b>Expenditures:</b>					
Instruction	7,845,255	9,881,088	8,610,792	(2,035,833)	1,270,296
Support services	3,478,775	4,441,508	3,813,395	(962,733)	628,113
Noninstructional services	4,150	-	-	4,150	-
Debt Service					
Principal	141,649	-	175,515	141,649	(175,515)
Interest	8,703	-	-	8,703	-
<b>Total Expenditures</b>	<b>11,478,532</b>	<b>14,322,596</b>	<b>12,599,702</b>	<b>(2,844,064)</b>	<b>1,722,894</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>2,438,835</b>	<b>364,287</b>	<b>(18,955)</b>	<b>(2,074,548)</b>	<b>(383,242)</b>
<b>Other Financing Sources (Uses):</b>					
Sale of Property	900	-	-	(900)	-
Transfers In	146,080	1,261,720		1,115,640	(1,261,720)
Transfers out	(930,301)	(2,196,832)	(694,746)	(1,266,531)	1,502,086
<b>Total Other Financing Sources (Uses)</b>	<b>(783,321)</b>	<b>(935,112)</b>	<b>(694,746)</b>	<b>(151,791)</b>	<b>240,366</b>
<b>Net Change in Fund Balances</b>	<b>1,655,514</b>	<b>(570,825)</b>	<b>(713,701)</b>	<b>(2,226,339)</b>	<b>(142,876)</b>
<b>Fund Balances:</b>					
July 1, 2005	-	2,617,822	2,356,518	2,617,822	(261,304)
Prior period adjustments	700	286	-	-	(286)
July 1, 2005, as restated	700	2,618,108	2,356,518	2,617,822	(261,590)
June 30, 2006	\$ 1,656,214	2,047,283	1,642,817	391,069	(404,466)

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

**YAZOO CITY MUNICIPAL SCHOOL DISTRICT**  
 Budgetary Comparison Schedule  
 Title I A Basic Fund  
 For the Year Ended June 30, 2006

Exhibit 2

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Federal sources	\$ 2,138,894	2,138,894	2,030,181	-	(108,713)
Total Revenues	<u>2,138,894</u>	<u>2,138,894</u>	<u>2,030,181</u>	<u>-</u>	<u>(108,713)</u>
<b>Expenditures:</b>					
Instruction	1,090,118	1,090,118	947,653	-	142,465
Support services	785,083	785,083	682,682	-	102,401
Noninstructional services	179,341	179,341	156,403	-	22,938
Total Expenditures	<u>2,054,542</u>	<u>2,054,542</u>	<u>1,786,738</u>	<u>-</u>	<u>267,804</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>84,352</u>	<u>84,352</u>	<u>243,443</u>	<u>-</u>	<u>159,091</u>
<b>Other Financing Sources (Uses):</b>					
Operating Transfers in	-	-	-	-	-
Operating Transfers out	(244,277)	(244,277)	(243,443)	-	834
Total Other Financing Sources (Uses)	<u>(244,277)</u>	<u>(244,277)</u>	<u>(243,443)</u>	<u>-</u>	<u>834</u>
Net Change in Fund Balances	<u>(159,925)</u>	<u>(159,925)</u>	<u>-</u>	<u>-</u>	<u>159,925</u>
<b>Fund Balances:</b>					
July 1, 2005	372	372	-	-	-
June 30, 2006	<u>\$ (159,553)</u>	<u>(159,553)</u>	<u>-</u>	<u>-</u>	<u>159,925</u>

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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

## Yazoo City 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.

SUPPLEMENTAL INFORMATION

**Yazoo City Municipal School District**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended June 30, 2006

**Schedule 1**

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	Catalog of Federal Domestic Assistance Number	Federal <u>Expenditures</u>
U. S. DEPARTMENT OF AGRICULTURE/		
Passed-through the Mississippi Department of Education:		
Non-cash assistance:		
Food Donation	10.550	\$86,771
Child Nutrition Cluster:		
School Breakfast Program	10.553	320,542
National School Lunch Program	10.555	939,801
Total child nutrition cluster		<u>1,260,343</u>
Total passed-through the MDE		<u>1,347,114</u>
TOTAL U. S. DEPARTMENT OF AGRICULTURE		1,347,114
<u>U.S. Department of Defense</u>		
Direct program:		
Reserve Officers' Training Corps	12.XXX	22,564
Total U.S. Department of Defense		<u>22,564</u>
FEDERAL COMMUNICATION COMMISSION		
Administered through Universal Service Administrative Company:		
The school and libraries program of the Universal Service Fund	32.XXX	52,404
Total Federal Communication Commission		<u>52,404</u>
Passed-through the Mississippi Department of Education:		
Title I Grants to Local Educational Agencies	84.010	1,896,714
Vocational Education - Basic Grant to States	84.048	57,842
Safe and Drug Free Schools and Communities - State Grants	84.186	28,745
Education for homeless children and youth	84.196	5,600
Twenty-first century community learning centers	84.287	189,599
State Grants for Innovative Programs	84.298	13,476
Rural Education	84.358	89,646
Reading first state grants	84.357	430,567
Improving Teacher Quality - State Grants	84.367	331,149
Grants for State Assessments and Related Activities	84.369	15,632
Special Education Cluster:		
Special Education - Grants to States	84.027	731,060
Special Education - Preschool Grants	84.173	1,500
Total special education cluster		<u>732,560</u>
Total passed-through the MDE		<u>3,791,530</u>
TOTAL U. S. DEPARTMENT OF EDUCATION		3,791,530
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Passed-through Mississippi Department of Health and Human Services:		
Temporary assistance for needy families	93.558	128,345
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		<u>128,345</u>
TOTAL FOR ALL FEDERAL AWARDS		<u>\$5,341,957</u>

Notes to Schedule

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

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

Expenditures	Total	Instruction and Other Instructional	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 16,035,151	12,177,286	656,751	1,011,718	2,189,396
Other	4,354,520	1,843,383	204,677	8,466	2,297,994
<b>Total</b>	<b>\$ 20,389,671</b>	<b>14,020,669</b>	<b>861,428</b>	<b>1,020,184</b>	<b>4,487,390</b>

Total number of students \* 2,551

Cost per student \$ 7,993 5,496 338 400 1,759

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); Support Services - Business (2500s)  
 School Administration - includes expenditures for the following functions: Support Services - School Administration (2400s)  
 Other - includes all expenditure functions not included in Instruction or Administration categories  
 includes 100 and 200 range object codes on the "Salaries and fringe benefits" line; all other expenditures on the "Other" line

INTERNAL CONTROL AND COMPLIANCE REPORTS

**J.E. FORTENBERRY, III, PC**  
**Certified Public Accountant**

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

Superintendent and School Board  
Yazoo City Municipal School District

I have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Yazoo City Municipal School District as of and for the year ended June 30, 2006, which collectively comprise Yazoo City Municipal School District's basic financial statements and have issued my report thereon dated May 21, 2008. I conducted my 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 my audit, I considered the school district's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the school district's ability to initiate, record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the Schedule of Findings and Questioned Costs as Finding 06-1, 06-2, and 06-3.

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. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described in the findings referred to above, I consider Findings 06-1 and 06-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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 May 21, 2008, 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.



J.E. Fortenberry, III, PC  
May 21, 2008

Certified Public Accountant

**J.E. FORTENBERRY, III, PC**  
**Certified Public Accountant**

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

Superintendent and School Board  
Yazoo City Municipal School District

Compliance

I have audited the compliance of the Yazoo City Municipal School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. The school district's major federal programs are identified in the summary of the auditor's results section of the Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contract and grants applicable to each of its major federal programs is the responsibility of the school district's management. My responsibility is to express an opinion on the school district's management. My responsibility is to express an opinion on the school district's compliance based on my audit.

I conducted my 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 I 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 I considered necessary in the circumstances. I believe my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the school district's compliance with those requirements.

In my opinion, the Yazoo City Municipal School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the Yazoo City Municipal School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I 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 my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

My 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, regulation, 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. I did not note any matters involving internal control over compliance and its operation that I 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.



J.E. Fortenberry, III, PC  
May 21, 2008

Certified Public Accountant

**J.E. FORTENBERRY, III, PC**  
**Certified Public Accountant**

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

Superintendent and School Board  
Yazoo City Municipal School District

I have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Yazoo City Municipal School District as of and for the year ended June 30, 2006, which collectively comprise Yazoo City Municipal School District's basic financial statements and have issued my report thereon dated October 5, 2006. I conducted my 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, I 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 my audit and, accordingly, I do not express such an opinion.

The results of my procedures 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 \$38,412 classroom supply funds carried over from previous years.

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

Finding:

The Limited Tax Note fund has a deficit fund balance in the amount of \$2,795. This deficit fund balance could have been eliminated with a transfer from the District Maintenance Fund (General Fund). Section 37-61-21, Miss. Code Ann. (1972), allows the school board of the school district, with the assistance from the superintendent, to transfer resources to and from functions and funds within the budget when and where needed under certain circumstances.

Recommendation:

The District should closely monitor expenditures incurred in all funds during the fiscal year. If expenditures threaten to exceed budgeted amounts, either cease expenditure activity within said fund or properly approve budget amendments and/or transfers to allow for further account activity.

School District's Response:

School District will monitor expenditures to comply with applicable State Law.

**AICPA & MSCPA**  
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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.



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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Yazoo City Municipal School District**  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2006

Section I: 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:
  - (1) Material weaknesses identified? Yes.
  - (2) Reportable conditions identified that are not considered to be material weaknesses? Yes.

Federal Awards:

4. Type of auditor's report issued on compliance for major federal programs: Unqualified.
5. Internal control over major programs:
  - a. Material weaknesses identified? No.
  - b. Reportable conditions identified that are not considered to be material weaknesses? No.
6. Any audit findings reported as required by Section \_\_.510(a) of OMB Circular A-133? No.
7. Federal programs identified as major programs:
  - a. Child Nutrition Cluster:  
CFDA# 10.553  
CFDA# 10.555
  - b. Title I Grants to Local Educational Agencies.  
CFDA# 84.010
8. The dollar threshold used to distinguish between Type A and Type B programs was: \$300,000.
9. Auditee qualified as a low-risk auditee? Yes.
10. Prior fiscal year audit findings and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section \_\_.315(b) of OMB Circular A-133? No.

## Section 2: Financial Statement Findings

### **Material Weaknesses:**

06-1 The Financial Accounting Manual for Mississippi Public School Districts, page G-1, requires the school district to have a capital asset capitalization policy. At a minimum, the policy must state that the school district will capitalize all assets with a useful life of greater than one year and with a historical cost of at least \$5,000 and all highly walkable items. Assets which cost equal to more than the capitalization threshold should be presented in the Government wide financial statements pursuant GASB 34. The district's capital assets presentation includes items below the threshold amounts. When entering asset information into the system, software technicalities prevent assets from being correctly categorized as capital and non capital assets. An effective system allows for differentiation of GASB 34 assets from the list of total assets including highly walkable and federal equipment prescribed by the office of the state auditor. The financial statements could be misstated if capital assets are not reported correctly.

#### Recommendation

The district should take steps to ensure that only capital assets over the threshold amounts are included for capital asset presentation.

06-2 The district completed construction of a new building in a prior year, which was over the GASB 34 threshold amount, but failed to add the building to the asset list. The Financial Accounting Manual for Mississippi Public School District, page G-6, requires that when a construction project is complete, the construction in progress amount is transferred to the building account code. An effective system ensures that all completed construction is transferred to the proper account code. The financial statements could be misstated if capital assets are not reported correctly.

#### Recommendation

The district should take steps to correctly move construction in progress assets to buildings.

### **Reportable Condition:**

06-3 The district made entries to the general ledger after the fiscal year end was closed. An effective control includes not making additional entries after the books have been closed for the year. If beginning fund balances change after year end, the financial statements could be materially misstated.

#### Recommendation

I recommend that the district implement procedures to ensure that entries to fund balance are not made after the close of year.

## Section 3: Federal Award Findings and Questioned Costs

The results of my tests did not disclose any findings and questioned costs related to the federal awards.

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

# YAZOO CITY MUNICIPAL SCHOOL DISTRICT

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

**Rebecca T. Berry**  
Superintendent

**John Deem**  
Assistant Superintendent

## CORRECTIVE ACTION PLAN

As required by \_\_\_315(b) of OMB Circular A-133, the Yazoo City Municipal School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2006:

<u>Finding</u>	<u>Corrective Action Plan Details</u>
06-1	<p>a. Name(s) of Contact Person(s) Responsible for Corrective Action: Rebecca Turner-Berry, Superintendent Telephone (662) 746-2125</p> <p>b. Corrective Action Planned: Assets were entered into the system according to GASB 34 threshold but the District was unable to provide a report to separate the capital and non capital assets. The District software provider has clarified how to present capital assets to exclude items below the threshold amounts.</p> <p>c. Anticipated Completion Date: This procedure was completed February 22, 2008.</p>
06-2	<p>a. Name(s) of Contact Person(s) Responsible for Corrective Action: Bernita Washington, Business Manager Telephone (662) 746-2125</p> <p>b. Corrective Action Planned: The District will move the completed construction from construction in progress to building account code.</p> <p>c. Anticipated Completion Date: This procedure will be implemented February 28, 2008.</p>
06-3	<p>a. Name(s) of Contact Person(s) Responsible for Corrective Action: Rebecca Turner-Berry, Superintendent Telephone (662) 746-2125</p> <p>b. Corrective Action Planned: The district will ensure that no entries are made to fund balance after the close of the year.</p> <p>c. Anticipated Completion Date: This procedure will be implemented February 28, 2008.</p>

**Yazoo City Municipal School District**  
1133 Calhoun Avenue  
Yazoo City, MS 39194  
**Ms. Rebeca Turner-Berry - Superintendent**  
**Ms. Bernita Washington - Business Manager**

**AUDITEE'S SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

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

<u>Finding</u>	<u>Status</u>
2005-1	Corrected
2005-2	Corrected