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Shaw School District
Audited Financial Statements
June 30, 2007

J E Fortenberry, III, PC
Certified Public Accountant

**Shaw School District
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SHAW SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

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

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

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

Superintendent and School Board
Shaw School District

I have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Shaw School District as of and for the year ended June 30, 2007, which collectively comprise the Shaw School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Shaw 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 Shaw School District at June 30, 2007, 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 January 30, 2008 on my consideration of the Shaw 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 Schedule and corresponding notes on pages (43) through (47) 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 no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that

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collectively comprise the Shaw 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
January 30, 2008

Certified Public Accountant

MANAGEMENT'S DISCUSSION AND ANALYSIS

**SHAW SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007**

The discussion and analysis of Shaw School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2007. 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 \$145,185 from fiscal year 2006.
- General revenues account for \$4,458,936 in revenue, or 69% of all revenues. This amount was less than the general revenues reported for the year 2006, which consisted of \$4,585,772 in revenue, or 76% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$1,989,034 or 31% of total revenues, as compared with \$1,424,335 or 24%, in 2006.
- The District had \$6,593,155 in expenses; only \$1,989,034 of these expenses were offset by program specific charges for services, grants and contributions. This amount was an increase from \$6,103,994 in 2006. General revenues of \$4,458,936 were not adequate to provide for these programs.
- Among major funds, the General Fund had \$4,275,374 in revenues and \$4,212,113 in expenditures. In 2006, the General Fund had \$4,310,639 in revenues and \$4,351,271 in expenditures. The General Fund's fund balance decreased \$139,667 over the prior year.
- Capital assets, net of accumulated depreciation, increased by \$145,937. One major component of this increase was the recording of construction in progress.
- Long-term debt decreased by \$100,239.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

The government-wide financial statements can be found on pages 17 -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 government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 22 and 26, 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 20 and 24 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 27.

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 29 - 42 of this report.

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund. This required supplementary information can be found on pages 44 - 47 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 49 and 50 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, liabilities exceeded assets by \$49,441 as of June 30, 2007.

The District had a negative balance in the amount invested in capital assets due to the accumulation of debt related to the repairs and maintenance of fully depreciated assets. 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 payment of debt, and the depreciation of capital assets.

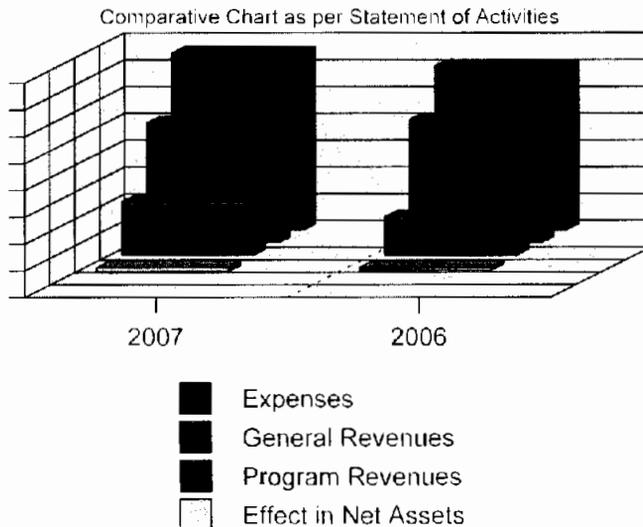
The following table presents a summary of the District's net assets for the fiscal year ended June 30, 2007 and 2006.

	2007	2006	Percentage Change
Assets			
Current assets	\$ 961,416	783,382	23%
Capital assets, net	771,513	625,576	23%
Total assets	1,732,929	1,408,958	23%
Liabilities			
Current liabilities	667,289	97,894	582%
Long-term liabilities	1,115,081	1,215,320	-8%
Total liabilities	1,782,370	1,313,214	36%
Net Assets			
Invested in capital assets, net of related debt	(323,192)	(570,953)	-43%
Restricted	193,840	401,947	-52%
Unrestricted	79,911	264,750	-70%
Total Net Assets	\$ (49,441)	95,744	-152%

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

- The addition of \$159,476 in construction in progress.
- The principal payments made on long term debt for \$101,824.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2007 were \$6,447,970. The total cost of all programs and services was \$6,593,155. The following chart presents a summary of the changes in net assets for the fiscal year ended June 30, 2007 and 2006.

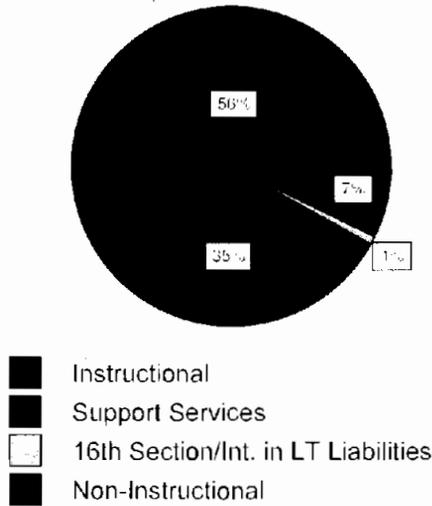


	2007	2006	Percentage Change
Revenues			
Program Revenues			
Charges for services	\$ 89,473	125,109	-28%
Operating Grants and Contributions	1,877,434	1,277,104	47%
Capital Grants and Contributions	22,127	22,122	0%
Total Program Revenues	1,989,034	1,424,335	40%
General Revenues			
Property Taxes	806,027	763,563	6%
Unrestricted Grants and Contributions	3,353,613	3,364,701	0%
Unrestricted Investment Earnings	2,436	22,379	-89%
Sixteenth Section Sources	158,544	170,846	-7%
Other	138,316	264,283	-48%
Total General Revenues	4,458,936	4,585,772	-3%
Total revenues	6,447,970	6,010,107	7%
Expenses			
Instruction	3,818,468	3,540,990	8%
Support services	2,237,948	2,067,903	8%
Non-instructional	480,218	448,416	7%
Interest on long-term liabilities	54,476	38,417	42%
Sixteenth section	2,045	8,268	-75%
Total expenses	6,593,155	6,103,994	8%
Increase (Decrease) in net assets	(145,185)	(93,887)	55%
Net Assets, July 1	95,744	189,631	-50%
Net Assets, June 30	\$ (49,441)	95,744	-152%

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

	2007	2006	2007 Net (Expense) Revenue	2006 Net (Expense) Revenue
	2007 Expenses	2006 Expenses		
Instruction	\$ 3,818,468	3,540,990	(2,756,265)	(2,724,890)
Support Services	2,237,948	2,067,903	(1,705,411)	(1,871,253)
Non-Instructional	480,218	448,416	(85,924)	(36,831)
Sixteenth Section	2,045	8,268	(2,045)	(8,268)
Interest on Long-Term Liabilities	54,476	38,417	(54,476)	(38,417)
	\$ 6,593,155	6,103,994	(4,604,121)	(4,679,659)

Chart as per Statement of Activities



- Net cost of governmental activities (\$4,604,121), was financed by general revenue, which is made up of primarily property taxes (\$806,027) and state revenue (\$3,312,512).
- Investment earnings accounted for \$2,436 of funding.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$313,311 a decrease of \$390,131. \$255,967 or 82% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$57,344 or 18% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was \$139,667. The fund balance of Other Governmental Funds showed a decrease of \$250,464. In addition to the General Fund Shaw School District has other major funds. The fund balance of the MS Reading First Fund and the Community Based Abstinence Education fund remained the same.

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 to reflect the recognition of the actual revenues and expenditures occurring.

Budgeted amounts for revenue from state sources was increased to reflect actual amount of state revenue received. The budgeted amounts for revenues in the Title I Low Grant Fund were decreased to show only the revenue that was requested and actually received. The total allocated amount was not requested.

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 are 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 other major special revenue funds is provided in this report as required supplementary information.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2007, the District's total capital assets were \$2,283,261 including school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$193,669 from the previous year. Total accumulated depreciation as of June 30, 2007 was \$1,511,748 and total depreciation expense for the year was \$47,732, resulting in total net capital assets of \$771,513.

	Capital Assets, Net of Depreciation		Percentage
	2007	2006	Change
Construction in progress	\$ 159,476	-	100%
Buildings	326,844	334,346	-2%
Building improvements	105,485	110,071	-4%
Mobile equipment	37,185	43,183	-14%
Furniture and equipment	46,375	32,934	41%
Leased property under capital leases	96,148	105,042	-8%
	\$ 771,513	625,576	23%

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

Debt Administration. At June 30, 2007, the District had no general obligation bonds and \$1,115,081 of other long-term debt outstanding, of which \$115,246 is due within one year.

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

	2007	2006	Percentage Change
Limited obligation bonds payable	\$ 685,000	725,000	-6%
Three mill notes payable	385,000	425,000	-9%
Obligations under capital leases	24,705	46,529	-47%
Compensated absences	20,376	18,791	8%
	\$ 1,115,081	1,215,320	-8%

CURRENT ISSUES

The Shaw 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. In addition, 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 Shaw School District, P.O. Box 510, Shaw, MS 38733.

FINANCIAL STATEMENTS

SHAW SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2007

	<u>Governmental Activities</u>
Assets	
<i>Cash and cash equivalents</i>	\$ 899,676
<i>Due from other governments</i>	56,577
<i>Other receivables, net</i>	1,912
<i>Inventories and prepaid items</i>	2,116
<i>Restricted assets</i>	1,135
<i>Capital Assets, non-depreciable:</i>	
<i>Construction in progress</i>	159,476
<i>Capital Assets, net of depreciation:</i>	
<i>Buildings</i>	326,844
<i>Building improvements</i>	105,485
<i>Mobile equipment</i>	37,185
<i>Furniture and equipment</i>	46,375
<i>Leased property under capital leases</i>	96,148
Total Assets	<u>1,732,929</u>
Liabilities	
<i>Accounts payable and accrued liabilities</i>	285,146
<i>Due to other governments</i>	190,003
<i>Deferred revenue</i>	172,956
<i>Interest payable on long-term liabilities</i>	19,184
<i>Long-term liabilities (due within one year):</i>	
<i>Capital related liabilities</i>	115,246
<i>Long-term liabilities (due beyond one year):</i>	
<i>Capital related liabilities</i>	979,459
<i>Non-capital related liabilities</i>	20,376
Total Liabilities	<u>1,782,370</u>
NET ASSETS	
<i>Invested in Capital Assets, Net of Related Debt</i>	(323,192)
<i>Restricted For:</i>	
<i>School - based activities</i>	114,193
<i>Debt service</i>	45,336
<i>Capital improvements</i>	19,083
<i>Unemployment benefits</i>	13,586
<i>Forestry improvements</i>	484
<i>Sixteenth section</i>	
<i>Expendable</i>	23
<i>Nonexpendable</i>	1,135
<i>Unrestricted</i>	79,911
Total Net Assets	<u>\$ (49,441)</u>

The accompanying notes are an integral part of this statement.

SHAW SCHOOL DISTRICT
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental Activities:					
Instruction	3,818,468	66,778	973,298	22,127	(2,756,265)
Support services	2,237,948	--	532,537	--	(1,705,411)
Noninstructional services	480,218	22,695	371,599	--	(85,924)
Sixteenth section	2,045	--	--	--	(2,045)
Interest on long-term liabilities	54,476	--	--	--	(54,476)
Total Primary Government	<u>\$ 6,593,155</u>	<u>\$ 89,473</u>	<u>\$ 1,877,434</u>	<u>\$ 22,127</u>	<u>(4,604,121)</u>
General Revenues:					
Taxes:					
General purpose levies					771,138
Debt purpose levies					34,889
Unrestricted grants and contributions:					
State					3,312,512
Federal					41,101
Unrestricted investment earnings					2,436
Sixteenth section sources					158,544
Other					138,316
Total general revenues					<u>4,458,936</u>
Change in Net Assets					(145,185)
Net Assets - Beginning					95,744
Net Assets - Ending					<u>\$ (49,441)</u>

The accompanying notes are an integral part of this statement.

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SHAW SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2007

	General Fund	MS Reading First Fund
ASSETS		
<i>Cash and cash equivalents</i>	\$ 145,817	\$ 98,926
<i>Due from other governments</i>	42,770	-
<i>Other receivables, net</i>	-	-
<i>Due from other funds</i>	36,209	289
<i>Advances to other funds</i>	40,000	-
<i>Inventories and prepaid items</i>	-	-
Total Assets	\$ 264,796	\$ 99,215
LIABILITIES AND FUND BALANCES		
Liabilities:		
<i>Accounts payable and accrued liabilities</i>	\$ 29,037	\$ 5,721
<i>Due to other funds</i>	117,524	4,754
<i>Advances from other funds</i>	-	-
<i>Deferred revenue</i>	-	88,740
Total Liabilities	146,561	99,215
Fund balances:		
Reserved For		
<i>Advances</i>	40,000	
<i>Inventory</i>	-	
<i>Forestry</i>	-	
<i>Unemployment</i>	-	
<i>Permanent funds</i>	-	
<i>Capital projects funds</i>	-	
<i>Debt service funds</i>	-	
Unreserved, undesignated, reported in:		
<i>General fund</i>	78,235	
<i>Special Revenue funds</i>	-	
Total Fund Balances	118,235	
Total Liabilities and Fund Balances	\$ 264,796	\$ 99,215

EXHIBIT C

Community Based Abstinence Education Fund	Other Governmental Funds	Total Governmental Funds
\$ 212,746	\$ 443,322	\$ 900,811
--	13,232	56,002
--	1,912	1,912
--	11,909	48,407
--	--	40,000
--	2,116	2,116
<u>\$ 212,746</u>	<u>\$ 472,491</u>	<u>\$ 1,049,248</u>
\$ 212,746	\$ 37,642	\$ 285,146
--	115,557	237,835
--	40,000	40,000
--	84,216	172,956
<u>212,746</u>	<u>277,415</u>	<u>735,937</u>
--	2,116	40,000
--	484	2,116
--	13,586	484
--	1,158	13,586
--	19,083	1,158
--	46,572	19,083
--	--	46,572
--	--	78,235
--	112,077	112,077
--	195,076	313,311
<u>\$ 212,746</u>	<u>\$ 472,491</u>	<u>\$ 1,049,248</u>

SHAW SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2007

Total fund balances - governmental funds balance sheet	\$ 313,311
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.	771,513
Payables for bond principal which are not due in the current period are not reported in the funds.	(640,000)
Payables for capital leases which are not due in the current period are not reported in the funds.	(1,459)
Payables for bond interest which are not due in the current period are not reported in the funds.	(19,184)
Payables for notes which are not due in the current period are not reported in the funds.	(338,000)
Payables for compensated absences not due in the current period are not reported in the funds.	(20,376)
Liabilities due in one year are not recognized in the funds	<u>(115,246)</u>
Net assets of governmental activities - statement of net assets	<u>\$ (49,441)</u>

The accompanying notes are an integral part of this statement.

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SHAW SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	General Fund	MS Reading First Fund
Revenue:		
Local sources	\$ 916,872	\$ --
State sources	3,316,781	--
Federal sources	41,721	258,032
Sixteenth section sources	--	--
Total revenues	<u>4,275,374</u>	<u>258,032</u>
Expenditures:		
Instruction	2,648,043	258,032
Support services	1,543,233	--
Noninstructional services	--	--
Sixteenth section	--	--
Debt service:		
Principal	20,047	--
Interest	790	--
Total expenditures	<u>4,212,113</u>	<u>258,032</u>
Excess (deficiency) of revenues (over) expenditures	63,261	--
Other financing sources (uses):		
Insurance loss recoveries	12,346	--
Transfers in	--	--
Transfers out	(215,274)	--
Total other financing sources (uses)	<u>(202,928)</u>	<u>--</u>
Net change in fund balance	(139,667)	--
Fund Balances:		
July 1, 2006	257,902	--
Increase (decrease) in reserve for inventory	--	--
June 30, 2007	<u>\$ 118,235</u>	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

EXHIBIT D

Community Based Abstinence Education Fund	Other Governmental Funds	Total Governmental Funds
\$ --	\$ 107,034	\$ 1,023,906
--	77,925	3,394,706
317,768	1,240,947	1,858,468
--	158,544	158,544
<u>317,768</u>	<u>1,584,450</u>	<u>6,435,624</u>
211,209	861,441	3,978,725
106,559	579,609	2,229,401
--	475,451	475,451
--	2,045	2,045
--	81,777	101,824
--	49,865	50,655
<u>317,768</u>	<u>2,050,188</u>	<u>6,838,101</u>
--	(465,738)	(402,477)
--	--	12,346
--	402,154	402,154
--	(186,880)	(402,154)
<u>--</u>	<u>215,274</u>	<u>12,346</u>
--	(250,464)	(390,131)
--	445,534	703,436
--	6	6
<u>\$ --</u>	<u>\$ 195,076</u>	<u>\$ 313,311</u>

SHAW 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, 2007

Net change in fund balances - total governmental funds	\$ (390,131)
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	193,669
The depreciation of capital assets used in governmental activities is not reported in the funds.	(47,732)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	21,824
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	40,000
Repayment of note principal is an expenditure in the funds but is not an expense in the SOA.	40,000
(Increase) decrease in accrued interest from beginning of period to end of period	(1,236)
Compensated absences are reported as amount earned in SOA but as amount paid in the funds.	(1,585)
Increase in inventory is an adjustment to fund balance in the funds but adjustment to expense in SOA.	<u>6</u>
Change in net assets of governmental activities - statement of activities	<u>\$ (145,185)</u>

The accompanying notes are an integral part of this statement.

SHAW SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 JUNE 30, 2007

	<u>Agency Funds</u>
ASSETS	
Assets:	
<i>Cash and other deposits</i>	\$ 8,477
<i>Due from other funds</i>	190,003
Total Assets	<u>\$ 198,480</u>
LIABILITIES	
Liabilities:	
<i>Accounts payable and accrued liabilities</i>	\$ 190,003
<i>Due to student clubs</i>	7,902
<i>Due to other funds</i>	575
Total Liabilities	<u>\$ 198,480</u>

The accompanying notes are an integral part of this statement.

Shaw School District

Notes to the Financial Statements
June 30, 2007

Shaw School District

Notes to Financial Statements
For the Year Ended June 30, 2007

(1) Summary of Significant Accounting Policies.

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

A. Financial Reporting Entity.

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the school district's governing board. As defined by accounting principles generally accepted in the United States of America, the school district is considered a "primary government." The school district is governed by a five member board to which each member was elected by the citizens of each defined county 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 funds of the reporting entity except for fiduciary funds, if applicable. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange revenues.

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

Shaw School District

Notes to Financial Statements
For the Year Ended June 30, 2007

Fund Financial Statements:

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

C. Measurement Focus and Basis of Accounting

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

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

The school district reports the following major governmental funds:

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

MS Reading First Fund - This fund is established to account for the financial resources of the program that provides assistance to States and districts in establishing reading programs for students in kindergarten through third grade.

Community Based Abstinence Education Fund - This fund is used to account

Shaw School District

Notes to Financial Statements
For the Year Ended June 30, 2007

for all the revenues and expenditures dealing with the CBAE Grant.

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

Permanent Funds - Permanent Funds are used to account for resources that are legally restricted to the extent that only earnings, and not the principle, 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 results of operations.

D. Account Classifications.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting* as issued in 2005 by the Government Finance Officers Association and are consistent with the broad classifications recommended in 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.

Shaw School District

Notes to Financial Statements For the Year Ended June 30, 2007

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 consists of amounts on deposit in demand accounts 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 types described in Section 27-105-33, Miss. Code Ann. (1972), or in any other type investment in which any other agency, instrumentality or subdivision of the state of Mississippi may invest, except that 100% of said funds are authorized to be so invested.

For accounting purposes, certificates of deposit are classified as investments if they have a maturity greater than three months when acquired. Investments are reported at fair value.

H. Inventories and Prepaid Items.

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

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

Prepaid items, such as prepaid insurance, are not reported 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 asset accounts) and estimated useful lives of capital assets are reported in

Shaw School District

Notes to Financial Statements
For the Year Ended June 30, 2007

the government-wide statements.

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

	<u>Capitalization Policy</u>	<u>Estimated Useful Life</u>
Land	\$ 0	0
Buildings	50,000	40 years
Building improvements	25,000	20 years
Improvements other than build- ings	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 4** for details.

J. Long-term liabilities.

Long-term liabilities are the unmatured principal of bonds, warrants, notes, or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments. In the government-wide Statement of Net Assets, long-term debt and other long-term obligations are reported as liabilities in governmental activities column. See **Note 5** for details.

K. Interfund Transactions and Balances.

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

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

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

Shaw School District

Notes to Financial Statements For the Year Ended June 30, 2007

eliminated in the Statement of Net Assets. See **Note 3** for details for interfund transactions, including receivables and payables at year-end.

L. Equity Classifications.

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

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

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

Reserved for inventory - An account that represents a portion of the fund balance which indicated 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 purposes - An account that represents a portion of the fund balance that is legally restricted for improving sixteenth section forest

Shaw School District

Notes to Financial Statements
For the Year Ended June 30, 2007

land.

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

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 - An account that represents the portion of fund balance that is expendable available financial resources.

M. Property Taxes.

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

N. Mississippi Adequate Education Program Revenues.

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

O. Compensated Absences.

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

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

Shaw School District

Notes to Financial Statements
For the Year Ended June 30, 2007

retires.

(2) Cash and Cash Equivalents.

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

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

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$900,811 and \$8,477 respectively. The carrying amount of deposits reported in the government wide statements was: Cash and Cash Equivalents \$899,676 and Restricted Assets \$1,135. The restricted assets represent the cash balance of the sixteenth section principal funds (Permanent Fund) which is legally restricted and may not be used for purposes that support the districts' programs. The bank balance was \$1,400,391.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of a financial institutions failure, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2007, none of the district's bank balance of \$1,400,391 was exposed to custodial credit risk.

(3) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

Governmental Funds:	<u>Due From</u>	<u>Due To</u>
General Fund	\$36,209	\$117,524

Shaw School District

Notes to Financial Statements
For the Year Ended June 30, 2007

MS Reading First Fund	289	4,754
Other Governmental Funds	11,909	115,557
Agency Funds	<u>190,003</u>	<u>575</u>
Total	<u>\$238,410</u>	<u>\$238,410</u>

The purpose of the Due From/To other funds balances was to provide funds for operating purposes. All balances are expected to be repaid within one year from the date of the financial statements.

B. Advances To/From Funds:

Governmental Funds:	<u>Advances To</u>	<u>Adv. From</u>
General Fund	\$40,000	\$ 0
Other Governmental Funds	<u>0</u>	<u>40,000</u>
Total	<u>\$40,000</u>	<u>\$40,000</u>

The advances represent an amount that was owed to the General Fund from the Food Service fund. These amounts represent long term obligations.

C. Transfers In/Out.

Governmental Funds:	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$0	\$ 215,274
Other Governmental Funds	<u>402,154</u>	<u>186,880</u>
Total	<u>\$402,154</u>	<u>\$402,154</u>

The purpose of the transfers was to move Sixteenth Section revenue and indirect costs to the operating account, to transfer debt service obligations, and to transfer operating funds. All transfers were routine and consistent with the fund making the transfer.

(4) Capital Assets.

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

	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	<u>Balance</u>
	<u>7-1-2006</u>				<u>6-30-2007</u>
<u>Non-depreciable assets:</u>					
Construction in progress	\$ 0	159,476			159,476
Total non-depreciable assets	0	159,476	0	0	159,476

Depreciable capital assets:

Shaw School District

Notes to Financial Statements
For the Year Ended June 30, 2007

	Balance 7-1-2006	Additions	Retirements	Adjustments	Balance 6-30-2007
Buildings	1,446,686				1,446,686
Building improvements	114,657				114,657
Mobile equipment	255,876				255,876
Furniture and equipment	160,949	34,193			195,142
Leased property under capital leases	111,424				111,424
Total depreciable capital assets	2,089,592	34,193	0	0	2,123,785
<u>Less accumulated depreciation for:</u>					
Buildings	1,112,340	7,502			1,119,842
Building improvements	4,586	4,586			9,172
Mobile equipment	212,693	5,998			218,691
Furniture and equipment	128,015	20,752			148,767
Leased property under capital leases	6,382	8,894			15,276
Total accumulated depreciation	1,464,016	47,732	0	0	1,511,748
Total depreciable capital assets, net	625,576	(13,539)	0	0	612,037
Governmental activities capital assets, net	\$ 625,576	145,937	0	0	771,513

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$33,412
Support Services	9,547
Non-Instructional	4,773
Total Depreciation Expense	<u>\$47,732</u>

(5) Long-term liabilities.

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

	Balance 7-1-2006	Additions	Reductions	Adjustments	Balance 6-30-2007	Amounts due within one year
A. Limited obligation bonds payable	\$ 725,000		40,000		685,000	45,000
B. Three mill-ten year notes payable	425,000		40,000		385,000	47,000

Shaw School District

Notes to Financial Statements
For the Year Ended June 30, 2007

	Balance 7-1-2006	Additions	Reductions	Adjustments	Balance 6-30-2007	Amounts due within one year
C. Obligations under capital leases	46,529		21,824		24,705	23,246
D. Compensated absences payable	18,791	1,585			20,376	
Total	\$ 1,215,320	1,585	101,824	0	1,115,081	115,246

A. Limited Obligation Bonds Payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital improvement bonds, Series 1998	Varies	05-01-98	05-01-2018	\$1,050,000	685,000
Total				\$1,050,000	685,000

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

Year Ending June 30	Principal	Interest	Total
2008	\$ 45,000	33,125	78,125
2009	45,000	30,875	75,875
2010	50,000	28,500	78,500
2011	50,000	26,000	76,000
2012	50,000	23,500	73,500
2013-2017	300,000	75,250	375,250
2018-2022	145,000	5,500	150,500
Total	\$685,000	222,750	907,750

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.

B. Three mill notes payable.

Debt currently outstanding is as follows:

Interest	Issue	Maturity	Amount	Amount
----------	-------	----------	--------	--------

Shaw School District

Notes to Financial Statements
For the Year Ended June 30, 2007

<u>Description</u>	<u>Rate</u>	<u>Date</u>	<u>Date</u>	<u>Issued</u>	<u>Outstanding</u>
Three Mill Ten Year Note Series 2005	Varies	12-19-05	10-15-15	\$ 425,000	385,000
Total				\$ <u>425,000</u>	<u>385,000</u>

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 47,000	14,785	61,785
2009	45,000	12,904	57,904
2010	45,000	11,063	56,063
2011	45,000	9,223	54,223
2012	45,000	7,382	52,382
2013 - 2017	<u>158,000</u>	<u>12,843</u>	<u>170,843</u>
Total	\$ <u>385,000</u>	<u>68,200</u>	<u>453,200</u>

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

C. Obligations under capital leases.

The school district has entered into two lease agreements that qualify as a capital lease for accounting purposes. Leased property under these leases is composed of:

1. Dishwashing machine
2. Passenger buses

The various options available to the lessee for these leases are as follows:

1. The title to the leased property for both leases is transferred to the school at the end of the lease term.

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest and Maintenance Charges</u>	<u>Total</u>
2008	\$ 23,246	1,111	24,357
2009	<u>1,459</u>	<u>85</u>	<u>1,544</u>

Shaw School District

Notes to Financial Statements
For the Year Ended June 30, 2007

Total \$ 24,705 1,196 25,901

This debt will be retired from the District Maintenance Fund and Food Service Fund.

D. Compensated absences payable.

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

(6) Defined Benefit Pension Plan.

Plan Description. The school district contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The rate for fiscal year ending June 30, 2007 was 11.30% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2007, 2006 and 2005 were \$380,630, \$362,371, and \$325,717, respectively, which equaled the required contributions for each year.

(7) 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.

Shaw School District

Notes to Financial Statements
For the Year Ended June 30, 2007

Year Ending June 30	Amount
2008	\$ 88,365
2009	88,365
2010	88,365
2011	80,320
2012	0
Total	<u>\$ 345,415</u>

(8) Risk Management.

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

REQUIRED SUPPLEMENTARY INFORMATION

SHAW SCHOOL DISTRICT
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2007

Exhibit 1

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 928,073	916,950	916,872	(11,123)	(78)
State sources	3,567,160	3,316,781	3,316,781	(250,379)	-
Federal sources	45,762	41,721	41,721	(4,041)	-
Total Revenues	4,540,995	4,275,452	4,275,374	(265,543)	(78)
Expenditures:					
Instruction	2,657,005	2,661,606	2,648,043	(4,601)	13,563
Support services	1,617,708	1,553,683	1,543,233	64,025	11,450
Debt Service:					
Principal	21,000	20,047	20,047	953	-
Interest	3,000	1,790	790	1,210	-
Total Expenditures	4,298,713	4,237,126	4,212,113	61,587	25,013
Excess (Deficiency) of Revenues Over Expenditures	242,282	38,326	63,261	(203,956)	24,935
Other Financing Sources (Uses):					
Insurance Loss Recoveries		12,346	12,346	12,346	-
Operating transfers in	184,000	564,681		380,681	(564,681)
Operating transfers out		(775,378)	(215,274)	(775,378)	(560,104)
Total Other Financing Sources (Uses)	184,000	(198,351)	(202,928)	(382,351)	4,577
Net Change in Fund Balances	426,282	(160,025)	(139,667)	(586,307)	20,358
Fund Balances:					
July 1, 2006			257,902	-	257,902
Prior period adjustments (Note)	-	-	-	-	-
July 1, 2006, as restated	-	-	257,902	-	257,902
June 30, 2007	\$ 426,282	(160,025)	118,235	(586,307)	278,260

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

SHAW SCHOOL DISTRICT
 Budgetary Comparison Schedule
 MS Reading First Fund
 For the Year Ended June 30, 2007

Exhibit 2

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$			-	-
Federal sources	200,000	258,032	258,032	58,032	-
	<u>200,000</u>	<u>258,032</u>	<u>258,032</u>	<u>58,032</u>	<u>-</u>
Expenditures:					
Instructional	199,778	260,561	258,032	(60,783)	(2,529)
Debt Service:					
Principal				-	-
Interest				-	-
Total Expenditures	<u>199,778</u>	<u>260,561</u>	<u>258,032</u>	<u>(60,783)</u>	<u>(2,529)</u>
Excess (Deficiency) of Revenues Over Expenditures	222	(2,529)	-	(2,751)	2,529
Other Financing Sources (Uses):					
Operating transfers out		-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>222</u>	<u>(2,529)</u>	<u>-</u>	<u>(2,751)</u>	<u>2,529</u>
Fund Balances:					
July 1, 2006				-	-
Prior Period Adjustments				-	-
July 1, 2006, as restated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (Decrease in Inventory)					-
June 30, 2007	<u>\$ 222</u>	<u>(2,529)</u>	<u>-</u>	<u>(2,751)</u>	<u>2,529</u>

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

SHAW SCHOOL DISTRICT
 Budgetary Comparison Schedule
 LEAF Grant Fund
 For the Year Ended June 30, 2007

Exhibit 3

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources					0
Federal sources		300,000	317,768	300,000	17,768
	-	300,000	317,768	300,000	17,768
Expenditures:					
Instruction		21,801	158,292	(21,801)	(136,491)
Support Services		106,559		(106,559)	106,559
Facilities Acquisition and Construction			159,476	-	(159,476)
Total Expenditures	0	128,360	317,768	(128,360)	(189,408)
Excess (Deficiency) of Revenues Over Expenditures	-	171,640	-	171,640	(171,640)
Other Financing Sources (Uses):					
Operating transfers in	-			-	-
Total Other Financing Sources (Uses)	-			-	-
Net Change in Fund Balances	-	171,640	-	171,640	(171,640)
Fund Balances:					
July 1, 2006				-	-
Prior Period Adjustments				-	-
July 1, 2006, as restated				-	-
Increase (Decrease in Inventory)					
June 30, 2007	\$ -	171,640	-	171,640	(171,640)

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

Shaw School District

Notes to the Required Supplementary Information For the Year Ended June 30, 2007

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 major special revenue funds consistent with accounting principles generally accepted in the United States of America.

SUPPLEMENTAL INFORMATION

Shaw School District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2007

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	\$22,390
Child Nutrition Cluster:		
School Breakfast Program	10.553	96,282
National School Lunch Program	10.555	<u>250,983</u>
Total child nutrition cluster		<u>347,265</u>
Total passed-through the MDE		<u>369,655</u>
TOTAL U. S. DEPARTMENT OF AGRICULTURE		369,655
 FEDERAL COMMUNICATION COMMISSION		
Administered through Universal Service Administrative Company:		
The school and libraries program of the Universal Service Fund	32.xxx	41,101
Total Federal Communication Commission		<u>41,101</u>
 U. S. DEPARTMENT OF EDUCATION/		
Passed-through the Mississippi Department of Education:		
Title I Grants to Local Educational Agencies	84.010	533,312
Vocational Education - Basic Grant to States	84.048	11,999
Safe and Drug Free Schools and Communities - State Grants	84.186	6,827
Twenty First Century Community Learning Centers	84.287	36,641
State Grants for Innovative Programs	84.298	791
Education Technology State Grants	84.318	4,781
Comprehensive School Reform Demonstration	84.332	1,658
Gaining Early Awareness and Readiness in Undergraduate Programs	84.334	3,230
Teacher Quality Enhancement Grants	84.336	540
Transition to Teaching	84.350	120
Reading First State Grants	84.357	258,032
Rural Education	84.358	24,913
Improving Teacher Quality State Grants	84.367	80,074
Grants for State Assessments and Related Activities	84.369	3,836
Special Education Cluster:		
Special Education - Grants to States	84.027	195,042
Special Education - Preschool Grants	84.173	<u>3,059</u>
Total special education cluster		<u>198,101</u>
Total passed-through the MDE		<u>1,164,855</u>
TOTAL U. S. DEPARTMENT OF EDUCATION		1,164,855
 U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Passed-through the Mississippi Department of Health and Human Services		
Community Based Abstinence Education	93.010	317,768
 Passed-through the Mississippi Department of Education		
Cooperative Agreements to Support Comprehensive School Health		
Programs to Prevent the Spread of HIV and Other Important Health		
Problems	93.938	<u>5,000</u>
Total passed-through the MDE		5,000
Total passed-through the Mississippi Department of Health and Human Services		322,768
 TOTAL FOR ALL FEDERAL AWARDS		 <u>\$1,898,379</u>

Notes to Schedule

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

Shaw School District

Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
 For the Year Ended June 30, 2007

Expenditures	Total	Instruction and Other Instructional	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 4,552,980	3,487,356	362,285	232,262	471,077
Other	2,285,121	806,688	153,709	25,184	1,299,540
Total	\$ 6,838,101	4,294,044	515,994	257,446	1,770,617
Total number of students *	672				
Cost per student	\$ 10,176	6,390	768	383	2,635

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
Shaw School District

I have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Shaw School District as of and for the year ended June 30, 2007, which collectively comprise the Shaw School District's basic financial statements and have issued my report thereon dated January 30, 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 as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the school district's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the school district's internal control over financial reporting.

My consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified a certain deficiency in internal control over financial reporting that I consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect material misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, process, record, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the school district's financial statements that is more than inconsequential will not be prevented or detected by the school district's internal control. I consider the deficiency described in the accompanying schedule of findings and questioned costs as finding 2007-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the school district's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily

AICPA & MSCPA

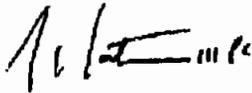
1929 Spillway Road, Suite B, Brandon, MS 39047, Telephone 601-992-5292, Fax 601-992-2033

disclose all significant deficiencies that are also considered to be material weaknesses. However, I believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 my audit and, accordingly, I do not express such an opinion. The results of my tests did not disclose any instances of noncompliance that are required to be reported under Government Auditing Standards.

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
January 30, 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
Shaw School District

Compliance

I have audited the compliance of the Shaw School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The school district's major federal programs are identified in the summary of auditor's results section of the Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the school district's management. 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 that 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, Shaw 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 Shaw 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 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
January 30, 2008

Certified Public Accountant

J.E. FORTENBERRY, III, P.C.
Certified Public Accountant

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

Superintendent and School Board
Shaw School District

I have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Shaw School District as of and for the year ended June 30, 2007, which collectively comprise Shaw School District's basic financial statements and have issued my report thereon dated January 30, 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.

Section 37-9-18(3)(a), 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(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 state laws and regulations. However, providing an opinion on compliance with 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 performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$4,012 of classroom supply funds carried over from previous years.

Section 37-9-18(3)(b), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure correct and appropriate coding at the function level. The audit must include a report showing the correct and appropriate functional level expenditure codes in expenditures by the school district."

The results of my procedures performed to test compliance with the requirements of Section 37-9-18(3)(b), Miss. Code Ann. (1972), disclosed no instances of noncompliance related to incorrect or inappropriate functional level expenditure coding.

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 procedures performed to test compliance with certain other state laws and regulations and my audit of the financial statements did not disclose any instances of noncompliance with other state laws and regulations.

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
January 30, 2008

Certified Public Accountant

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Shaw School District

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

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: | |
| a. Material weakness(es) identified? | No |
| b. Significant deficiency (ies) 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 weakness(es) identified? | No |
| b. Significant deficiency (ies) identified that are not considered to be material weaknesses? | No |
| 6. Any audit finding(s) reported as required by Section __.510(a) of Circular A-133? | No |
| 7. Federal programs identified as major programs: | |
| a. Cluster: Child Nutrition
CFDA # 10.553
CFDA # 10.555 | |
| b. Title I - grants to local educational agencies
CFDA # 84.010 | |
| c. Community Based Abstinence Assistance
CFDA # 93.010 | |
| 8. The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. Auditee qualified as a low-risk auditee? | Yes |

10. Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____ .315(b) of OMB Circular A-133?

No

Section 2: Financial Statement Findings

The results of my tests disclosed the following any finding related to the financial statements that is required to be reported by *Government Auditing Standards*.

Significant Deficiency:

Capital Assets Acquired in the Current Year Not Recorded

Finding 2007-1

The District is responsible for ensuring that financial statement information acquired through its centralized accounting records is free of material misstatements. During the course of the audit, capital asset building improvements for five items totaling \$159,476 were noted but not recorded to accounting records. In addition, \$120,840 in remaining commitments to these projects was not acknowledged in the District's Notes to the Financial Statements. Failure to record District assets can result in potential material misstatements of the financial statements.

Recommendation

Adjusting journal entries have been prepared by the auditor for District personnel to input into the centralized accounting records as construction in progress. This ensures proper reporting in both the financial statements and in the capital assets note to the financial statements. In addition, each improvement project should be noted as a capital asset in the fixed asset subsidiary record and inventory number should be individually assigned. Upon completion, individual projects should be transferred from construction in progress to the building improvements classification to ensure the proper asset depreciation calculation is made and that proper presentation is made in the financial statements and accompanying notes.

School District's Response

The District will ensure that capital assets are properly recorded in the accounting records and presented in the financial statements in the future.

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.

