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Yazoo City Municipal School District
Audited Financial Statements
June 30, 2007

Fortenberry & Ballard, PC
Certified Public Accountants

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

FORTENBERRY & BALLARD, PC
Certified Public Accountants

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

Superintendent and School Board
Yazoo City Municipal School District

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Yazoo City Municipal School District as of and for the year ended June 30, 2007, 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. Our responsibility is to express opinions on these financial statements based on Our audit.

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

In our opinion, the financial statements, referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Yazoo City Municipal 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*, we have also issued our report dated May 21, 2008 on our consideration of the Yazoo City Municipal School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting 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 our audit.

The Management's Discussion and Analysis on pages (7) through (14) and the Budgetary Comparison Schedule and corresponding notes on pages (43) through (46) are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

AICPA & MSCPA

1292 Spillway Rd. Suite B, Brandon, MS 39047 Telephone (601)992-5292

Our audit was conducted for the purpose of forming opinions 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 our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Fortenberry & Ballard, PC

Fortenberry & Ballard, P.C.
May 21, 2008

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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, 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 \$193,234 or 4% from fiscal year 2007.
- General revenues account for \$15,051,616 in revenue, or 72% of all revenues. This amount was less than the general revenues reported for the year 2006, which consisted of \$12,609,943 in revenue, or 66% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$5,981,747 or 28% of total revenues, as compared with \$6,535,611 or 34%, in 2006.
- The District had \$21,226,597 in expenses; only \$5,981,747 of these expenses were offset by program specific charges for services, grants and contributions. This amount was an increase from \$19,705,980 in 2006. General revenues of \$15,051,616 were not adequate to provide for these programs.
- Among major funds, the General Fund had \$14,467,052 in revenues and \$14,884,046 in expenditures. In 2006, the General Fund had \$12,580,747 in revenues and \$12,599,702 in expenditures. The General Fund's fund balance decreased \$1,140,767 over the prior year.
- Capital assets, net of accumulated depreciation, decreased by \$1,551,062. One major component of this increase was the prior period adjustment to correctly state capital assets.
- Long-term debt principal payments were \$708,688.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

The government-wide financial statements can be found on pages 16-17 of this report.

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

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 20 and 24, 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 18 and 22 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 25.

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 26 - 41 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 43-46 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 48 and 49 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 \$193,234 as of June 30, 2007.

The District had \$760,190 in the amount invested in capital assets net of related debt. 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.

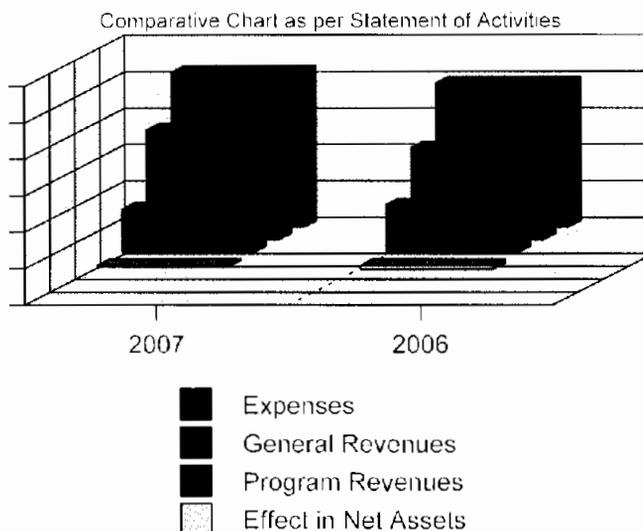
The following table presents a summary of the District's net assets for the fiscal year ended June 30, 2007 and 2006.

	2007	2006	Percentage Change
Assets			
Current assets	\$ 3,622,451	5,114,316	-29%
Capital assets, net	9,509,029	11,060,091	-14%
Total assets	13,131,480	16,174,407	-19%
Liabilities			
Current liabilities	1,271,944	1,859,137	-32%
Long-term liabilities	8,825,188	9,569,590	-8%
Total liabilities	10,097,132	11,428,727	-12%
Net Assets:			
Invested in capital assets, net of related debt	760,190	1,602,564	-53%
Restricted	1,958,118	1,731,924	13%
Unrestricted	316,040	1,411,192	-78%
Total Net Assets	\$ 3,034,348	4,745,680	-36%

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

- The recording of a prior period adjustment to correctly state capital assets.
- The principal payments made on long term debt for \$708,688.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2007 were \$21,033,363. The total cost of all programs and services was \$15,244,850. The following chart presents a summary of the changes in net assets for the fiscal year ended June 30, 2007 and 2006.

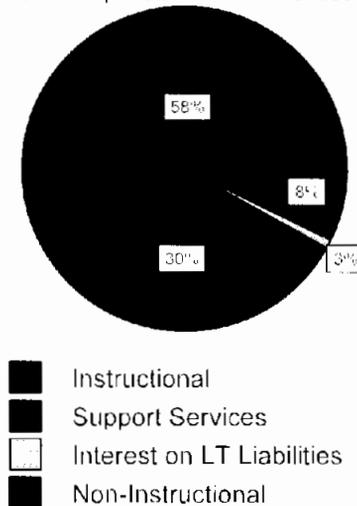


	2007	2006	Percentage Change
Revenues			
Program Revenues			
Charges for services	\$ 579,103	733,751	-21%
Operating Grants and Contributions	5,402,644	5,801,860	-7%
Total Program Revenues	5,981,747	6,535,611	-8%
General Revenues			
Property Taxes	1,932,320	1,731,338	12%
Unrestricted Grants and Contributions	12,807,648	10,715,109	20%
Unrestricted Investment Earnings	146,446	109,728	33%
Sixteenth Section Sources	20,566	22,153	-7%
Other	144,636	31,615	357%
Total General Revenues	15,051,616	12,609,943	19%
Total revenues	21,033,363	19,145,554	10%
Expenses			
Instruction	12,494,475	11,213,708	11%
Support services	6,528,688	6,262,918	4%
Non-instructional	1,789,437	1,858,124	-4%
Interest on long-term liabilities	413,997	371,195	12%
Sixteenth section	-	35	-100%
Total expenses	21,226,597	19,705,980	8%
Increase (Decrease) in net assets	(193,234)	(560,426)	-66%
Net Assets, July 1	4,745,680	6,562,899	-28%
Prior Period Adjustment	(1,518,098)	(1,256,793)	21%
Net Assets, July 1, Restated	3,227,582	5,306,106	-39%
Net Assets, June 30	\$ 3,034,348	4,745,680	-36%

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	2006
	Expenses	Expenses	Net (Expense) Revenue	Net (Expense) Revenue
Instruction	\$ 12,494,475	11,213,708	(10,733,566)	(9,021,981)
Support Services	6,528,688	6,262,918	(5,442,758)	(5,770,319)
Non-Instructional	1,789,437	1,858,124	1,345,471	1,993,161
Sixteenth Section	-	35	-	(35)
Interest on Long-Term Liabilities	413,997	371,195	(413,997)	(371,195)
	\$ 21,226,597	19,705,980	(15,244,850)	(13,170,369)

Chart as per Statement of Activities



- Net cost of governmental activities (\$15,244,850), was financed by general revenue, which is made up of primarily property taxes (\$1,932,320) and state revenue (\$12,757,850).
- Investment earnings accounted for \$146,446 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 \$2,422,073 a decrease of \$905,125. \$1,455,774 or 60% 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 \$966,299 or 40% 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 \$1,140,767. The fund balance of Other Governmental Funds showed an increase of \$48,872. In addition to the General Fund Yazoo City Municipal School District has other major funds. The fund balance of the School Lunch Fund increased \$75,158, the fund balance of the Title I remained the same, the Limited Tax Note fund showed

an increase in fund balance in the amount of \$64,541 and the fund balance of the Bond Issue Retirement Fund showed a decrease of \$47,071.

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 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 \$14,659,849 including school buildings, buses, other school vehicles and furniture and equipment. This amount represents a decrease of \$1,335,673 from the previous year. Total accumulated depreciation as of June 30, 2007 was \$5,150,820 and total depreciation expense for the year was \$236,151, resulting in total net capital assets of \$9,509,029.

	Capital Assets, Net of Depreciation		Percentage
	2007	2006	Change
Land	\$ 602,643	602,643	0%
Buildings	7,773,445	8,003,258	-3%
Improvements other than buildings	201,445	240,224	-16%
Mobile equipment	596,774	314,076	90%
Furniture and equipment	334,722	1,887,699	-82%
Leased property under capital leases	-	12,191	-100%
	\$ 9,509,029	11,060,091	-14%

Additional information of the District’s capital assets can be found in Note 4 on page 35 of this report.

Debt Administration. At June 30, 2007, the District had \$4,340,000 in general obligation bonds and \$4,485,188 of other long-term debt outstanding, of which \$734,094 is due within one year.

			Percentage
	2007	2006	Change
General obligation bonds payable	\$ 4,340,000	4,560,000	-5%
Limited obligation bonds payable	2,635,000	2,815,000	-6%
Limited tax notes payable	1,470,000	1,595,000	-8%
Obligations under energy efficiency lease	296,339	475,027	-38%
Other notes payable	7,500	12,500	-40%
Compensated absences	76,349	112,063	-32%
	\$ 8,825,188	9,569,590	-8%

Additional information of the District's long-term debt can be found in Note 5 on page 36 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. 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 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, 2007

	Governmental Activities
ASSETS AND OTHER DEBITS	
Assets:	
<i>Cash and other deposits</i>	\$ 2,043,349
<i>Cash with fiscal agents</i>	49,386
<i>Due from other governments</i>	1,326,048
<i>Inventories and prepaid items</i>	35,208
<i>Restricted Assets</i>	168,460
<i>Capital assets, non-depreciable:</i>	
<i>Land</i>	602,643
<i>Capital assets, net of accumulated depreciation:</i>	
<i>Buildings</i>	7,773,445
<i>Improvements other than buildings</i>	201,445
<i>Mobile equipment</i>	596,774
<i>Furniture and equipment</i>	334,722
Total Assets	<u>13,131,480</u>
Liabilities	
<i>Accounts payable and accrued liabilities</i>	167,402
<i>Due to other governments</i>	1,032,976
<i>Interest payable on long-term liabilities</i>	71,566
Long-term liabilities (due within one year):	
<i>Capital related liabilities</i>	734,094
Long-term liabilities (due beyond one year)	
<i>Capital related liabilities</i>	8,014,745
<i>Non-capital related liabilities</i>	76,349
Total Liabilities	<u>10,097,132</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	760,190
Restricted For:	
School Based Activities	1,020,397
Debt Service	419,956
Capital Improvements	218,826
Forestry	3,127
Unemployment	69,138
Sixteenth Section	
Expendable	58,214
Nonexpendable	168,460
Unrestricted	316,040
Total Net Assets	<u>\$ 3,034,348</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, 2007

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Assets
Primary government				
Governmental Activities:				
<i>Instruction</i>	12,494,475	424,511	1,336,398	(10,733,566)
<i>Support services</i>	6,528,688	—	1,085,930	(5,442,758)
<i>Noninstructional services</i>	1,789,437	154,592	2,980,316	1,345,471
<i>Interest on long-term liabilities</i>	413,997	—	—	(413,997)
Total Primary Government	<u>\$ 21,226,597</u>	<u>\$ 579,103</u>	<u>\$ 5,402,644</u>	<u>(15,244,850)</u>
General Revenues:				
Taxes:				
<i>General purpose levies</i>				1,299,019
<i>Debt purpose levies</i>				632,930
<i>Gaming</i>				371
Unrestricted grants and contributions:				
<i>State</i>				12,757,850
<i>Federal</i>				49,798
<i>Unrestricted investment earnings</i>				146,446
<i>Sixteenth section sources</i>				20,566
<i>Other</i>				144,636
Total general revenues				<u>15,051,616</u>
Change in Net Assets				(193,234)
Net Assets - Beginning				4,745,680
Prior Period Adjustment				(1,518,098)
Net Assets - Restated				<u>3,227,582</u>
Net Assets - Ending				<u>\$ 3,034,348</u>

The accompanying notes are an integral part of this statement.

YAZOO CITY MUNICIPAL SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2007

	General Fund	School Lunch Fund	Title I Basic FYE - 2003
ASSETS			
<i>Cash and cash equivalents</i>	\$ 446,736	\$ 552,683	\$ 1,181
<i>Cash with fiscal agents</i>	--	--	--
<i>Due from other governments</i>	285,612	18,185	372,185
<i>Due from other funds</i>	--	112,625	637,756
<i>Inventories and prepaid items</i>	--	35,208	--
Total Assets	\$ 732,348	\$ 718,701	\$ 1,011,122
LIABILITIES AND FUND BALANCES			
Liabilities:			
<i>Accounts payable and accrued liabilities</i>	\$ 33,532	\$ 16,082	\$ 36,434
<i>Due to other funds</i>	195,731	54,123	974,688
Total Liabilities	229,263	70,205	1,011,122
Fund balances:			
Reserved for:			
<i>Inventory</i>	--	35,208	--
<i>Forestry</i>	--	--	--
<i>Unemployment</i>	--	--	--
<i>Capital projects funds</i>	--	--	--
<i>Debt service funds</i>	--	--	--
<i>Permanent funds</i>	--	--	--
Unreserved, undesignated, reported in:			
<i>General fund</i>	503,085	--	--
<i>Special Revenue funds</i>	--	613,288	--
Total Fund Balances	503,085	648,496	--
Total Liabilities and Fund Balances	\$ 732,348	\$ 718,701	\$ 1,011,122

EXHIBIT C

Three Mill Note Retirement	Bond Issue Retirement	Other Governmental Funds	Total Governmental Funds
\$ 183,284	\$ 68,448	\$ 959,477	\$ 2,211,809
--	--	49,386	49,386
--	--	389,342	1,065,324
365,218	565,339	222,365	1,903,303
--	--	--	35,208
<u>548,502</u>	<u>633,787</u>	<u>1,620,570</u>	<u>5,265,030</u>
\$ --	\$ --	\$ 81,354	\$ 167,402
486,756	475,878	488,379	2,675,555
<u>486,756</u>	<u>475,878</u>	<u>569,733</u>	<u>2,842,957</u>
--	--	--	35,208
--	--	3,127	3,127
--	--	69,138	69,138
--	--	218,826	218,826
61,746	157,909	193,671	413,326
--	--	226,674	226,674
--	--	--	--
--	--	--	503,085
--	--	339,401	952,689
<u>61,746</u>	<u>157,909</u>	<u>1,050,837</u>	<u>2,422,073</u>
<u>548,502</u>	<u>633,787</u>	<u>1,620,570</u>	<u>5,265,030</u>

YAZOO CITY MUNICIPAL 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	\$ 2,422,073
Amounts reported for governmental activities in the statement of net assets ("SNA") are different because:	
Capital assets used in governmental activities are not reported in the funds.	9,509,029
Liabilities due in one year are recognized in the SNA but not in the funds	(734,094)
Payables for bond principal which are not due in the current period are not reported in the funds.	(6,565,000)
Payables for leases which are not due in the current period are not reported in the funds.	(107,245)
Payables for bond interest which are not due in the current period are not reported in the funds.	(71,566)
Payables for compensated absences not due in the current period are not reported in the funds.	(76,349)
Payables for notes which are not due in the current period are not reported in the funds.	(1,340,000)
Other long-term liabilities which are not due and payable in the current period are not reported in the funds.	<u>(2,500)</u>
Net assets of governmental activities - statement of net assets	<u>\$ 3,034,348</u>

The accompanying notes are an integral part of this statement.

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

	General Fund	School Lunch Fund	Title I Basic Fund
Revenue:			
<i>Local sources</i>	\$ 1,914,104	\$ 215,321	\$ --
<i>Intermediate sources</i>	--	--	--
<i>State sources</i>	12,454,442	7,842	--
<i>Federal sources</i>	98,506	1,417,152	1,520,941
<i>Sixteenth section sources</i>	--	--	--
Total revenues	<u>14,467,052</u>	<u>1,640,315</u>	<u>1,520,941</u>
Expenditures:			
Instruction	10,303,535	--	265,952
Support services	4,343,512	138,160	1,116,789
Noninstructional services	31,531	1,426,997	138,200
Facilities acquisition and construction	--	--	--
Debt service:			
<i>Principal</i>	183,688	--	--
<i>Interest</i>	21,780	--	--
<i>Other</i>	--	--	--
Total expenditures	<u>14,884,046</u>	<u>1,565,157</u>	<u>1,520,941</u>
Excess (deficiency) of revenues (over) expenditures	(416,994)	75,158	--
Other financing sources (uses):			
Operating transfers in	--	--	--
Operating transfers out	(723,773)	--	--
Other financing uses	--	--	--
Total other financing sources (uses)	<u>(723,773)</u>	<u>--</u>	<u>--</u>
Net change in fund balance	(1,140,767)	75,158	--
Fund Balances:			
July 1, 2006	1,642,817	570,940	--
Prior period adjustments	1,035	--	--
July 1, 2006 as restated	1,643,852	570,940	--
Increase (decrease) in reserve for inventory	--	2,398	--
June 30, 2007	<u>\$ 503,085</u>	<u>\$ 648,496</u>	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

EXHIBIT D

Limited Tax Note Fund	Bond Issue Retirement	Other Governmental Funds	Total Governmental Funds
\$ 161,220	\$ 484,521	\$ 26,353	\$ 2,801,519
--	--	986	986
--	--	743,974	13,206,258
--	--	1,967,435	5,004,034
--	--	20,566	20,566
<u>161,220</u>	<u>484,521</u>	<u>2,759,314</u>	<u>21,033,363</u>
--	--	1,766,680	12,336,167
--	--	1,070,611	6,669,072
--	--	156,906	1,753,634
--	--	14,586	14,586
125,000	220,000	180,000	708,688
70,648	230,980	131,040	454,448
1,240	--	653	1,893
<u>196,888</u>	<u>450,980</u>	<u>3,320,476</u>	<u>21,938,488</u>
(35,668)	33,541	(561,162)	(905,125)
100,209	13,530	766,911	880,650
--	--	(156,877)	(880,650)
--	--	--	--
<u>100,209</u>	<u>13,530</u>	<u>610,034</u>	<u>--</u>
64,541	47,071	48,872	(905,125)
(2,795)	110,838	1,011,575	3,333,375
--	--	(9,610)	(8,575)
(2,795)	110,838	1,001,965	3,324,800
--	--	--	2,398
<u>\$ 61,746</u>	<u>\$ 157,909</u>	<u>\$ 1,050,637</u>	<u>\$ 2,422,073</u>

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, 2007

Net change in fund balances - total governmental funds	\$ (905,125)
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	194,612
The depreciation of capital assets used in governmental activities is not reported in the funds.	(236,151)
Increase in inventory is an adjustment to fund balance in the funds but affects expense in SOA.	2,398
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	400,000
Repayment of lease principal is an expenditure in the funds but is not an expense in the SOA.	178,688
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	5,000
Repayment of note principal is an expenditure in the funds but is not an expense in the SOA.	125,000
(Increase) decrease in accrued interest from beginning of period to end of period	6,630
Compensated absences are reported as amount earned in SOA but as amount paid in the funds.	<u>35,714</u>
Change in net assets of governmental activities - statement of activities	<u>\$ (193,234)</u>

The accompanying notes are an integral part of this statement.

YAZOO CITY MUNICIPAL SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2007

	<u>Agency Funds</u>
ASSETS	
Assets:	
<i>Cash and other deposits</i>	\$ 102,190
<i>Due from local sources</i>	4,617
<i>Due from other funds</i>	1,032,976
Total Assets	\$ 1,139,783
LIABILITIES	
Liabilities:	
<i>Accounts Payable & Accrued Liabilities</i>	\$ 848,148
<i>Due to student clubs</i>	30,911
<i>Due to other funds</i>	260,724
Total Liabilities	\$ 1,139,783

The accompanying notes are an integral part of this statement.

Yazoo City Municipal School District

Notes to the Financial Statements
June 30, 2007

Yazoo City Municipal 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 an "other stand-alone government." The school district is a related organization of, but not a component unit of, the city of Yazoo 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 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.

Yazoo City Municipal 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.

School Lunch Fund - This fund accounts for the food distribution under the food service lunch program.

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

Yazoo City Municipal School District

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

Limited Tax Note Fund - This fund serves to account for funds from a limited tax note that was issued for capital improvements

Bond Issue Retirement Fund - This fund serves to account for funds from a bond 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 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.

Yazoo City Municipal School District

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

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

F. Cash and Cash Equivalents.

The school district deposits excess funds in the financial institutions selected by the school board. State statutes specify how these depositories are to be selected.

Cash and cash equivalents 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.

Yazoo City Municipal School District

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

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

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

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

	<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 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 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.

Yazoo City Municipal School District

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

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

Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See **Note 3** for details for interfund transactions, including receivables and payables at year-end.

L. Equity Classifications.

Government-wide Financial Statements:

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

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 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.

Yazoo City Municipal School District

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

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

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.

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

Yazoo City Municipal School District

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

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

(2) 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.

Cash and Cash Equivalents

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$2,211,809 and \$102,190 respectively. The carrying amount of deposits reported in the government wide statements was: Cash and Cash Equivalents \$2,043,349 and Restricted Assets \$168,460. The restricted assets represent the investment and 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's programs. The bank balance was \$3,852,527.

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 \$3,852,527 was exposed to custodial credit risk.

Cash with Fiscal Agents

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$49,389.

Yazoo City Municipal School District

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

(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	\$0	\$ 195,731
School Lunch Fund	112,625	54,123
Title I Basic Fund	637,756	974,688
Limited Tax Notes Payable	365,218	486,756
Bond Issue Retirement Fund	565,339	475,878
Other Governmental Funds	222,365	488,379
Agency Funds	<u>1,032,976</u>	<u>260,724</u>
Total	<u>\$2,936,279</u>	<u>\$2,936,279</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. Transfers In/Out.

Governmental Funds:	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$0	\$ 723,773
Limited Tax Note Fund	100,209	0
Bond Issue Retirement	13,530	0
Other Governmental Funds	<u>766,911</u>	<u>156,877</u>
Total	<u>\$880,650</u>	<u>\$ 880,650</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>6-30-2007</u>	<u>6-30-2007</u>	<u>6-30-2007</u>
<u>Non-depreciable assets:</u>					
Land	\$ 602,643				602,643
Total non-depreciable assets	602,643	0	0	0	602,643

Yazoo City Municipal School District

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

	Balance 7-1-2006	Additions	Retirements	Adjustments	Balance 6-30-2007
Depreciable capital assets:					
Buildings	12,138,841			(35,763)	12,103,078
Improvements other than bldg.	330,726			(35,199)	295,527
Mobile equipment	764,318	187,614		129,633	1,081,565
Furniture and equipment	2,131,060	6,998		(1,561,022)	577,036
Leased property under capital leases	27,935			(27,935)	0
Total depreciable capital assets	15,392,880	194,612	0	(1,530,286)	14,057,206
Less accumulated depreciation for:					
Buildings	4,135,583	194,050			4,329,633
Improvements other than bldg.	90,502	3,580			94,082
Mobile equipment	450,242	34,549			484,791
Furniture and equipment	243,361	3,972		(5,019)	242,314
Leased property under capital leases	15,744			(15,744)	0
Total accumulated depreciation	4,935,432	236,151	0	(20,763)	5,150,820
Total depreciable capital assets, net	10,457,448	(41,539)	0	(1,509,523)	8,906,386
Governmental activities capital assets, net	\$ 11,060,091	(41,539)	0	(1,509,523)	9,509,029

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$165,306
Support Services	47,230
Non-Instructional	23,615
Total Depreciation Expense	\$236,151

Adjustments were made to correctly state capital assets.

(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. General obligation bonds payable	\$ 4,560,000		220,000		4,340,000	220,000
B. Limited obligation bonds payable	2,815,000		180,000		2,635,000	190,000
C. Limited Tax notes payable	1,595,000		125,000		1,470,000	130,000

Yazoo City Municipal 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
D. Obligations under energy efficient leases	475,027		178,688		296,339	189,094
E. Other notes payable	12,500		5,000		7,500	5,000
F. Compensated absences payable	112,063		35,714		76,349	
Total	\$ 9,569,590	0	744,402	0	8,825,188	734,094

A. General Obligation Bonds.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
GOB, Series 2000	variable	09-01-00	09-01-20	\$ 5,435,000	4,340,000
Total				\$ 5,435,000	4,340,000

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

Year Ending June 30	Principal	Interest	Total
2008	\$ 220,000	230,480	450,480
2009	230,000	215,080	445,080
2010	240,000	200,940	440,940
2011	255,000	188,500	443,500
2012	270,000	176,125	446,125
2013-2017	1,560,000	594,500	2,154,500
2018-2022	1,565,000	161,125	1,726,125
Total	\$ 4,340,000	1,766,750	6,106,750

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, 2007, the amount of outstanding bonded indebtedness was equal to 10.5% of property assessments as of October 1, 2006. This debt will be retired from the Bond Issue Retirement fund.

Yazoo City Municipal School District

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

B. Limited Obligation Bonds.

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
State aid capital improvements	variable	03-01-98	03-01-18	\$ 3,800,000	2,635,000
Total				<u>\$ 3,800,000</u>	<u>2,635,000</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	\$ 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	225,000	81,900	306,900
2013-2017	1,300,000	247,275	1,547,275
2018-2022	295,000	13,275	308,275
Total	\$ <u>2,635,000</u>	<u>765,340</u>	<u>3,400,340</u>

The state aid capital improvement bonds are secured by an irrevocable pledge of certain revenues from the State of Mississippi pursuant to the Mississippi Accountability and the Adequate Education Act, Sections 37-151-1 through 37-151-107 of the Mississippi 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.

C. Limited Tax Notes Payable.

Debt currently outstanding is as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Limited Tax Notes, Series 2001	variable	03-01-01	03-01-16	\$ 1,925,000	1,470,000
Total				<u>\$ 1,925,000</u>	<u>1,470,000</u>

Yazoo City Municipal School District

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

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	\$	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		160,000	63,073	223,073
2013-2017		<u>745,000</u>	<u>84,480</u>	<u>829,480</u>
Total	\$	<u>1,470,000</u>	<u>367,085</u>	<u>1,837,085</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:

<u>Year Ending June 30</u>		<u>Principal</u>	<u>Interest & Maintenance Charges</u>	<u>Total</u>
2008	\$	189,094	11,374	200,468
2009		<u>107,245</u>	<u>2,041</u>	<u>109,286</u>
Total	\$	<u>296,339</u>	<u>13,415</u>	<u>309,754</u>

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

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.

Yazoo City Municipal School District

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

E. Other Notes Payable (Asbestos Loan)

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

<u>Year Ending June 30</u>	<u>Principal</u>
2008	\$ 5,000
2009	<u>2,500</u>
Total	\$ <u>7,500</u>

This debt will be retired from the District Maintenance fund.

F. 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 ended June 30, 2007 was 11.30% 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, 2007, 2006 and 2005 were \$1,370,453, \$1,241,119, and \$1,163,410, respectively, which equaled the required contributions for each year.

(7) 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

Yazoo City Municipal School District

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

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 121 school districts and one community college and covers risks of loss arising from injuries to the member's employees. The Mississippi Workers Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Bancorp South Bank in Jackson. The funds in the trust account are used to pay any claim up to \$700,000. For a claim exceeding \$700,000, MSBAWCT has insurance which will pay the excess to the statutory amount required by the Mississippi Workers Compensation Commission Act. 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.

(8) 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 correctly state capital assets.	\$ (1,509,523)
2. See explanations below.	<u>(8,575)</u>
Total	\$ <u><u>(1,518,098)</u></u>

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

<u>Major Funds</u>	<u>Explanation(s)</u>	<u>Amount</u>
General Fund	To correct error from computer software and the refund of a check for an expense aid in 2005 and no receivable was setup.	\$ 1,035
Other Governmental Funds	To eliminate revenue posted as due from state and void prior period expense.	<u>(9,610)</u>
Total		\$ <u><u>(8,575)</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

YAZOO CITY MUNICIPAL SCHOOL DISTRICT

Exhibit 1

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

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ -	-	1,914,104	-	1,914,104
State sources	-	-	12,454,442	-	12,454,442
Federal sources	-	-	98,506	-	98,506
Total Revenues	-	-	14,467,052	-	14,467,052
Expenditures:					
Instruction	-	-	10,303,535	-	(10,303,535)
Support services	-	-	4,343,512	-	(4,343,512)
Noninstructional services	-	-	31,531	-	(31,531)
Facilities acquisition and construction	-	-	-	-	-
Debt Service					
Principal	-	-	183,688	-	(183,688)
Interest	-	-	21,780	-	(21,780)
Total Expenditures	-	-	14,884,046	-	(14,884,046)
Excess (Deficiency) of Revenues Over Expenditures	-	-	(416,994)	-	(416,994)
Other Financing Sources (Uses):					
Insurance Loss Recoveries	-	-	-	-	-
Transfers In	-	-	-	-	-
Other Financing Sources	-	-	-	-	-
Other Financing Uses	-	-	-	-	-
Transfers out	-	-	(723,773)	-	(723,773)
Total Other Financing Sources (Uses)	-	-	(723,773)	-	(723,773)
Net Change in Fund Balances	-	-	(1,140,767)	-	(1,140,767)
Fund Balances:					
July 1, 2006	-	-	1,642,817	-	1,642,817
Prior period adjustments	-	-	1,035	-	1,035
July 1, 2006, as restated	-	-	1,643,852	-	1,643,852
June 30, 2007	\$ -	-	503,085	-	503,085

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

YAZOO CITY MUNICIPAL SCHOOL DISTRICT

Exhibit 2

Budgetary Comparison Schedule
 School Lunch Fund
 For the Year Ended June 30, 2007

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ -	-	215,321	-	215,321
State sources	-	-	7,842	-	7,842
Federal sources	-	-	1,417,152	-	1,417,152
Total Revenues	-	-	1,640,315	-	1,640,315
Expenditures:					
Support Services	-	-	138,160	-	(138,160)
Noninstructional	-	-	1,426,997	-	(1,426,997)
Total Expenditures	-	-	1,565,157	-	(1,565,157)
Excess (Deficiency) of Revenues Over Expenditures	-	-	75,158	-	75,158
Other Financing Sources (Uses):					
Other financing uses	-	-	-	-	-
Operating transfers out	-	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-	-
Net Change in Fund Balances	-	-	75,158	-	75,158
Fund Balances:					
July 1, 2006	-	-	570,940	-	570,940
Increase in inventory	-	-	2,398	-	2,398
June 30, 2007	\$ -	-	648,496	-	648,496

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, 2007

Exhibit 3

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ -	-	1,520,941	-	1,520,941
Total Revenues	-	-	1,520,941	-	1,520,941
Expenditures:					
Instruction	-	-	265,952	-	(265,952)
Support services	-	-	1,116,789	-	(1,116,789)
Noninstructional services	-	-	138,200	-	(138,200)
Total Expenditures	-	-	1,520,941	-	(1,520,941)
Excess (Deficiency) of Revenues Over Expenditures	-	-	-	-	-
Other Financing Sources (Uses):					
Operating Transfers out	-	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-	-
Net Change in Fund Balances	-	-	-	-	-
Fund Balances:					
July 1, 2006	-	-	-	-	-
June 30, 2007	\$ -	-	-	-	-

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

Yazoo City Municipal School District

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

Budgetary Comparison Schedules

(1) Basis of Presentation.

The Budgetary Comparison Schedules presents 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.

Pursuant to MS code section 37-61-9, the budget is to be 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.

The minutes of the Yazoo City Municipal School District's Board of Trustees reflect that a public hearing was held regarding the budget in accordance with MS code section 37-61-9. The minutes reflect that the board was to be polled regarding the approval of the budget at a later date. However, there is no subsequent mention of the results of the polling of the board in the minutes. Therefore, there was no documentation noted in the board minutes of the approval of the budget for the fiscal year ended June 30, 2007

SUPPLEMENTAL INFORMATION

Yazoo City Municipal 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 Expenditures
U. S. DEPARTMENT OF AGRICULTURE		
Passed-through the Mississippi Department of Education:		
Non-cash assistance:		
Food Donation	10.550	\$84,607
Child Nutrition Cluster:		
School Breakfast Program	10.553	355,409
National School Lunch Program	10.555	1,123,263
Summer food service program for children	10.559	3,369
Total child nutrition cluster		<u>1,482,041</u>
Total passed-through the MDE		<u>1,566,648</u>
TOTAL U. S. DEPARTMENT OF AGRICULTURE		<u>1,566,648</u>
 FEDERAL COMMUNICATION COMMISSION		
Administered through Universal Service Administrative Company:		
The school and libraries program of the Universal Service Fund	32.xxx	49,798
Total Federal Communication Commission		<u>49,798</u>
 Passed-through the Mississippi Department of Education:		
Title I Grants to Local Educational Agencies	84.010	1,521,081
Vocational Education - Basic Grant to States	84.048	75,009
Safe and Drug Free Schools and Communities - State Grants	84.186	38,692
Education for Homeless Children and Youth	84.196	24,286
Twenty-first century community learning centers	84.287	134,855
State Grants for Innovative Programs	84.298	54,905
Education Technology State Grants	84.318	23,229
Reading First State Grants	84.357	366,669
Rural Education	84.358	71,921
Improving Teacher Quality - State Grants	84.367	322,223
Special Education Cluster:		
Special Education - Grants to States	84.027	640,053
Special Education - Preschool Grants	84.173	16,619
Total special education cluster		<u>656,672</u>
Total passed-through the MDE		<u>3,289,542</u>
TOTAL U. S. DEPARTMENT OF EDUCATION		<u>3,289,542</u>
 U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Passed-through the Mississippi Department of Health and Human Services:		
Temporary assistance for needy families		131,137
Total U.S. Department of Health and Human Service	93.558	<u>131,137</u>
 U.S. DEPARTMENT OF HOMELAND SECURITY		
Corporation for National and Community Service		
Passed-through the Mississippi Department of Education:		
Learn and Serve America - school and community based program	94.004	9,111
Total Corporation for National and Community Services		<u>9,111</u>
 TOTAL FOR ALL FEDERAL AWARDS		 <u><u>\$5,046,236</u></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 School District

Schedule 2

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

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 16,742,941	12,634,102	703,652	1,217,856	2,187,331
Other	<u>5,195,547</u>	<u>2,030,114</u>	<u>235,302</u>	<u>18,430</u>	<u>2,911,701</u>
Total	<u>\$ 21,938,488</u>	<u>14,664,216</u>	<u>938,954</u>	<u>1,236,286</u>	<u>5,099,032</u>
Total number of students*	<u>2,447</u>				
Cost per student	<u>\$ 8,965</u>	<u>5,993</u>	<u>384</u>	<u>505</u>	<u>2,084</u>

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

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

General Administration - includes expenditures for the following functions: Support Services - General Administration (2300s); and Support Services - Business (2500s).

School Administration - includes expenditures for the following function: Support Services - School Administration (2400s).

Other - includes all expenditure functions not included in Instruction or Administration Categories.

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

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

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INTERNAL CONTROL AND COMPLIANCE REPORTS

FORTENBERRY & BALLARD, PC
Certified Public Accountants

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

We 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, 2007, and have issued our report thereon dated May 21, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the school district's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our 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, we do not express an opinion on the effectiveness of the school district's internal control over financial reporting.

Our consideration of 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, we identified a certain deficiency in the internal control over financial reporting that we 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, record, process, 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 entity's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as Findings 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.

AICPA & MSCPA

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

Our 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 disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above in Finding 2007-1 to be a material weakness.

Compliance and other matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of non compliance 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.

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
May 21, 2008

Certified Public Accountants

FORTENBERRY & BALLARD, PC
Certified Public Accountants

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

We 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, 2007. The school district's major federal programs are identified in the summary of the auditor's results section of the accompanying 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. Our responsibility is to express an opinion on the school district's compliance based on our audit.

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

In our opinion, 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, 2007.

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 our audit, we considered the school district's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over compliance.

AICPA & MSCPA

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A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance 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 or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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.

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
May 21, 2008

Certified Public Accountants

FORTENBERRY & BALLARD, PC
Certified Public Accountants

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

Superintendent and School Board
Yazoo City Municipal School District

We 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, 2007, which collectively comprise Yazoo City Municipal School District's basic financial statements and have issued our report thereon dated May 21, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States .

Section 37-9-18(3)(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, we 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 our audit and, accordingly, we do not express such an opinion.

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$46,466 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 our 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, we have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

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

AICPA & MSCPA

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

Finding

Adoption of an original budget by the school district was not documented in the minutes of the board of education, although, a public hearing was held. Section 37-61-9, Miss. Code Ann. (1972), states that prior to the adoption of a budget, the school board shall hold at least one public hearing to provide the general public with an opportunity to comment on the taxing and spending plan incorporated in the proposed budget. After the adoption of the budget, a synopsis of the budget shall be published in a newspaper having general circulation in the school district.

Recommendation:

The District should ensure that budgets are properly adopted, approved, and spread in the board minutes.

School District's Response:

The School District will adopt budgets to comply with applicable State Law.

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

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

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
May 21, 2008

Certified Public Accountants

FINDINGS, CORRECTIVE ACTION PLAN AND AUDIT FOLLOW-UP

Yazoo City Municipal School District

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

Section 1: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

4. Type of auditor's report issued on compliance for major federal programs: Unqualified.
5. Internal control over major programs:
 - a. Material weakness(es) identified? No.
 - b. Significant deficiency(ies) 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 tested as major programs:
 - a. Child Nutrition Cluster:
CFDA# 10.553
CFDA# 10.555
CFDA# 10.559
 - b. Title I Grants to Local Educational Agencies:
CFDA# 84.010
 - c. Reading First Grant
CFDA# 84.357
 - d. Improving Teacher Quality
CFDA# 84.367
 - e. Special Education Cluster

CFDA# 84.027
CFDA# 84.173

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: Findings Relating to the Financial Statements

Material Weakness:

Finding 2007-1

The district did not perform monthly procedures such as bank reconciliations in a timely manner. Timely bank reconciliations ensure that mistakes, such as improper interfund borrowing, are discovered and corrected before or at year ended. In addition, the district did not have controls in place to accurately record and reverse year end accruals of receivables and payables. Also adjustments were necessary to properly reflect capital asset balances. An effective system of controls ensures that accruals are properly recorded and also properly reversed when it is complete. Adjustments have been made to properly state these accounts.

Recommendation:

The district should implement control procedures to ensure that bank reconciliations are completed timely and accruals of receivable and payables are accurate and capital assets are properly recorded.

Section 3: Findings and Questioned Costs for Federal Awards

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

Yazoo City Municipal School District
1133 Calhoun Avenue
Yazoo City, MS 39194
Rebecca Turner-Berry - Superintendent
Bernita Washington - Business Manager

AUDITEE'S CORRECTIVE ACTION PLAN

As required by Section __.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, 2007:

<u>Finding</u>	<u>Corrective Action Plan Details</u>
2007-1	<p>a. Name of Contact Person Responsible for Corrective Action:</p> <p>name: Rebecca Turner-Berry title: Superintendent phone number: 662-746-2125</p> <p>b. Corrective Action Planned:</p> <p>The School will perform bank reconciliations monthly and accurately record and reverse accruals of receivables and payables</p> <p>c. Anticipated Completion Date:</p> <p>June 30, 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, 2007:

<u>Finding</u>	<u>Status</u>
2006-1	Corrected
2006-2	Corrected
2006-3	Corrected