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Audited Financial Statements
June 30, 2009

Fortenberry & Ballard, PC
Certified Public Accountants

**Drew School District
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FINANCIAL AUDIT REPORT

FORTENBERRY & BALLARD, P.C.

Certified Public Accountants

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

Superintendent and School Board
Drew School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Drew School District as of and for the year ended June 30, 2009, which collectively comprise the Drew School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Drew School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Drew School District, as of June 30, 2009, and the respective changes in financial position, thereof for the year 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 March 8, 2010, on our consideration of the Drew School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or 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 16 and the Budgetary Comparison Schedule and corresponding notes on pages 43 through 45 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

1929 Spillway Road, 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 Drew School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. In addition, the Schedule of Instructional, Administrative, and Other Expenditures - Governmental Funds is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The other supplemental information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances, General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances, All Governmental Funds, Last Four Years, is presented for purposes of additional analysis as required by the Mississippi Department of Education and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
March 8, 2010

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

**DREW SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2009**

The discussion and analysis of Drew School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2009. 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 for 2009 decreased \$308,701, including a prior period adjustment of \$22,015, which represents a 42% decrease from fiscal year 2008.
- General revenues amounted to \$3,993,259 and \$4,184,351, or 75% and 72% of all revenues for fiscal years 2009 and 2008, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$1,302,869 or 25% of total revenues for 2009, and \$1,618,790 or 28% of total revenues for 2008.
- The District had \$5,626,844 and \$5,873,934 in expenses for the fiscal years 2009 and 2008; only \$1,302,869 for 2009 and \$1,618,790 for 2008 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$3,993,259 for 2009 and \$4,184,351 for 2008 were not adequate to provide for these programs in 2009 or 2008.
- Among major funds, the General Fund had \$3,796,080 in revenues and \$4,285,576 in expenditures for 2009, and \$3,974,698 in revenues and \$4,133,744 in expenditures for 2008. The General Fund's fund balance decreased \$363,930 from 2008 to 2009, and decreased by \$108,331 from 2007 to 2008.
- Capital assets, net of accumulated depreciation, decreased by \$24,824 for 2009 and decreased by \$45,984 for 2008. The cause of this decrease was mainly due to the recording of depreciation expense for the year.
- Long-term debt decreased by \$70,000 for 2009 and decreased by \$70,000 for 2008. This decrease was due to principal payments made on limited obligation bonds. In addition, the liability for compensated absences decreased by \$8,744 for 2009 and increased by \$4,801 for 2008.

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 supplemental 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.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar

information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. The governmental fund's balance sheet is reconciled to the statement of net assets, and the governmental fund's statement of revenues, expenditures, and changes in fund balances is reconciled to the statement of activities to facilitate this comparison between governmental funds and governmental activities.

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.

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.

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 immediately following the basic financial statements.

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 schedule has been provided for the General Fund.

Additionally, a schedule of expenditures of federal awards as required by OMB Circular A-133 and a schedule of instructional, administrative, and other expenditures for governmental funds can be found in this report.

Also, included in the other supplemental information section are the Statement of Revenues, Expenditures, and Changes in Fund Balances, General Fund, Last Four Years and the Statement of Revenues, Expenditures, and Changes in Fund Balances, All Governmental Funds, Last Four Years. This information is presented for purposes of additional analysis as required by the Mississippi Department of Education and is not a required part of the basic financial statements.

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 \$424,702 as of June 30, 2009.

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

Table 1 presents a summary of the District's net assets at June 30, 2009, and June 30, 2008.

Table 1
Condensed Statement of Net Assets

	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>Percentage Change</u>
Current assets	\$ 668,146	981,975	(32)%
Restricted assets	28,806	28,806	0%
Capital assets, net	<u>1,013,403</u>	<u>1,038,227</u>	(2)%
Total assets	<u>1,710,355</u>	<u>2,049,008</u>	(17)%
Current liabilities	438,597	389,805	13%
Long-term debt	<u>847,056</u>	<u>925,800</u>	(9)%
Total liabilities	<u>1,285,653</u>	<u>1,315,605</u>	(2)%
Net assets:			
Invested in capital assets, net of related debt	188,403	143,227	32%
Restricted	325,932	407,950	(20)%
Unrestricted	<u>(89,633)</u>	<u>182,226</u>	(149)%
Total net assets	<u>\$ 424,702</u>	<u>733,403</u>	(42)%

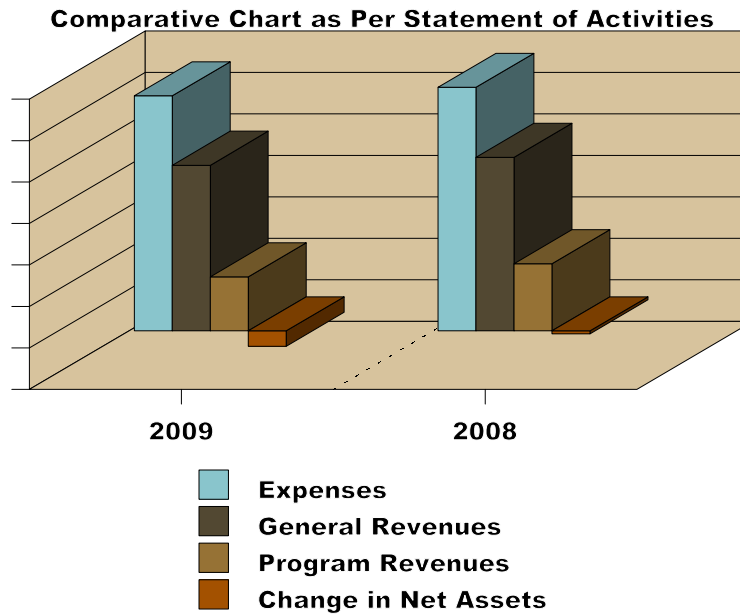
The following are significant current year transactions that have had an impact on the Statement of Net Assets.

- Capital assets decreased from the previous fiscal year by \$24,824 mainly due to the recording of depreciation expense for the year.
- Long-Term Debt decreased from the previous fiscal year by \$70,000 due to principal payments made on limited obligation bonds.
- Invested in capital assets, net of related debt, increased by \$45,176 from the previous year due to a decrease in long-term debt.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2009 and June 30, 2008 were \$5,296,128 and \$5,803,141. The total cost of all programs and services was \$5,626,844 for 2009 and \$5,873,934. Table 2 presents a summary of the changes in net assets for the fiscal year ended June 30, 2009 and June 30, 2008.

Table 2
Changes in Net Assets

	<u>Year Ended June 30, 2009</u>	<u>Year Ended June 30, 2008</u>	<u>Percentage Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 89,821	58,087	55%
Operating grants and contributions	1,195,639	1,560,703	(23)%
Capital grants and contributions	17,409		
Total program revenues	<u>1,302,869</u>	<u>1,618,790</u>	(20)%
General revenues:			
Property taxes	801,497	799,644	0%
Grants and contributions not restricted	3,017,627	3,230,337	(7)%
Unrestricted investment earnings	2,379	5,281	(55)%
Sixteenth section sources	129,827	126,714	2%
Other	41,929	22,375	87%
Total general revenues	<u>3,993,259</u>	<u>4,184,351</u>	(5)%
Total revenues	<u>5,296,128</u>	<u>5,803,141</u>	(9)%
Expenses:			
Instruction	2,593,274	2,883,610	(10)%
Support services	2,417,882	2,536,015	(5)%
Non-instructional	496,119	408,523	21%
Sixteenth section		165	(100)%
Interest on long-term debt	119,569	45,621	162%
Total expenses	<u>5,626,844</u>	<u>5,873,934</u>	(4)%
Increase (decrease) in net assets	<u>(330,716)</u>	<u>(70,793)</u>	367%
Net Assets, July 1	733,403	793,414	(8)%
Prior Period Adjustment	22,015	10,782	104%
Net Assets, Restated	<u>755,418</u>	<u>804,196</u>	(6)%
Net Assets, June 30	<u>\$ 424,702</u>	<u>733,403</u>	(42)%



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 functional activity'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.

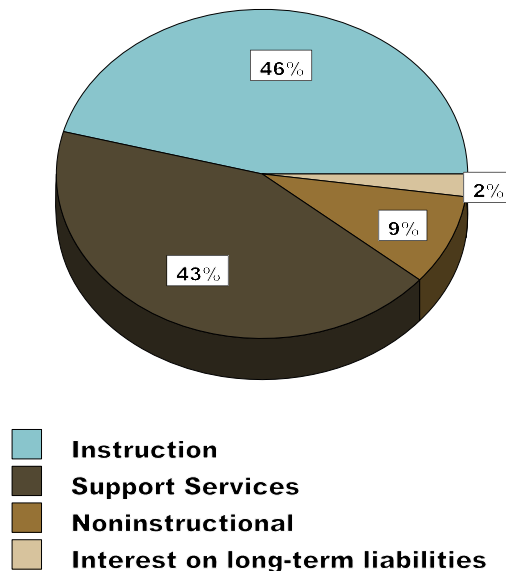
**Table 3
Net Cost of Governmental Activities**

	Total Expenses		Percentage Change
	2009	2008	
Instruction	\$ 2,593,274	2,883,610	(10)%
Support services	2,417,882	2,536,015	(5)%
Non-instructional	496,119	408,523	21%
Sixteenth section		165	(100)%
Interest on long-term liabilities	119,569	45,621	162%
Total Expenses	\$ 5,626,844	5,873,934	(4)%

Net (Expense) Revenue

	2009	2008	Percentage Change
Instruction	\$ (2,178,408)	(2,046,806)	6%
Support services	(1,946,898)	(1,880,288)	4%
Non-instructional	(79,100)	(282,264)	(72)%
Sixteenth section		(165)	(100)%
Interest on long-term liabilities	(119,569)	(45,621)	162%
Total Net (expense) revenue	\$ (4,323,975)	(4,255,144)	2%

Chart of Expenses as Per Statement of Activities



- Net cost of governmental activities (\$4,323,975 for 2009 and \$4,255,144 for 2008) was financed by general revenue, which is made up of primarily property taxes (\$801,497 for 2009 and \$799,644 for 2008) and state and federal revenues (\$3,017,627 for 2009 and \$3,230,337 for 2008). In addition, there was \$129,827 and \$126,714 in Sixteenth Section sources for 2009 and 2008 respectively.
- Investment earnings amounted to \$2,379 for 2009 and \$5,281 for 2008.

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 \$271,422, a decrease of \$363,812, which includes the decrease in inventory of \$2,367. \$106,731 or 39% of the fund balance represents unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$164,691 or 61% 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 \$363,930. The fund balance of Other Governmental Funds showed a decrease of \$2,916, including the decrease in reserve for inventory of \$2,367 to reflect the actual inventory for the current fiscal year. The other (decreases) increases in the fund balances of the other major funds were as follows:

Major Fund	Increase (Decrease)
MAEP Bond Fund	\$ 3,034

BUDGETARY HIGHLIGHTS

During the year, the District revised the annual operating budget.

- Budgeted amounts for revenue from local, state and federal sources in the General Fund were decreased. Amounts originally budgeted were overestimated.
- Budgeted amounts for instruction, support services and non-instructional services expenditures were increased. Amounts originally budgeted were understated.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2009, the District's total capital assets were \$2,511,817, including land, buildings, buses, other school vehicles, mobile equipment and furniture and equipment. This amount represents a decrease of \$1,139 from 2008. Total accumulated depreciation as of June 30, 2009 was \$1,498,414 and total depreciation expense for the year was \$57,808, resulting in total net capital assets of \$1,013,403.

**Table 4
Capital Assets**

	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>Percentage Change</u>
Land	\$ 36,500	36,500	0%
Buildings	815,886	842,682	(3)%
Mobile equipment	127,638	96,645	32%
Furniture and equipment	33,379	62,400	(47)%
Total	\$ <u>1,013,403</u>	<u>1,038,227</u>	(2)%

Debt Administration. At June 30, 2009, the District had \$825,000 in outstanding long-term debt, of which \$75,000 is due within one year. In addition, the liability for compensated absences decreased from the prior year.

The District maintains a AA bond rating.

**Table 5
Outstanding Long-Term Debt**

	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>Percentage Change</u>
Limited obligation bonds	\$ 825,000	895,000	(8)%
Compensated absences	22,056	30,800	(28)%
Total	\$ <u>847,056</u>	<u>925,800</u>	(9)%

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

CURRENT ISSUES

The Drew School District is financially stable. The District is proud of its community support of the public schools.

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

The District actively pursues grant funding to supplement the local, state and federal revenues.

Enrollment for the 2008-2009 year increased by 2% to 607 students.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Drew School District, 286 West Park Avenue, Drew, MS 38735.

FINANCIAL STATEMENTS

DREW SCHOOL DISTRICT

STATEMENT OF NET ASSETS

JUNE 30, 2009

	Governmental Activities
Assets	
<i>Cash and cash equivalents</i>	\$ 487,882
<i>Cash with fiscal agents</i>	4,609
<i>Investments</i>	24,850
<i>Due from other governments</i>	140,372
<i>Accrued interest receivable</i>	2,217
<i>Inventories and prepaid items</i>	8,216
<i>Restricted assets</i>	28,806
<i>Capital assets, non-depreciable:</i>	
<i>Land</i>	36,500
<i>Capital assets, net of accumulated depreciation:</i>	
<i>Buildings</i>	815,886
<i>Mobile equipment</i>	127,638
<i>Furniture and equipment</i>	33,379
Total Assets	<u>1,710,355</u>
Liabilities	
<i>Accounts payable and accrued liabilities</i>	335,929
<i>Due to other governments</i>	150
<i>Deferred revenue</i>	14,451
<i>Other Payables</i>	75,000
<i>Interest payable on long-term liabilities</i>	13,067
Long-term liabilities (due within one year):	
<i>Capital related liabilities</i>	75,000
Long-term liabilities (due beyond one year)	
<i>Capital related liabilities</i>	750,000
<i>Non-capital related liabilities</i>	22,056
Total Liabilities	<u>1,285,653</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	188,403
Restricted Net Assets:	
Expendable:	
School-based activities	182,524
Debt service	75,104
Unemployment benefits	38,670
Sixteenth section	828
Non-expendable:	
Sixteenth section	28,806
Unrestricted	(89,633)
Total Net Assets	<u>\$ 424,702</u>

The accompanying notes are an integral part of this statement.

DREW SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
Governmental Activities:				Governmental Activities	
<i>Instruction</i>	2,593,274	69,067	328,390	17,409	(2,178,408)
<i>Support services</i>	2,417,882	--	470,984	--	(1,946,898)
<i>Noninstructional services</i>	496,119	20,754	396,265	--	(79,100)
<i>Interest on long-term liabilities</i>	119,569	--	--	--	(119,569)
Total Governmental Activities	<u>\$ 5,626,844</u>	<u>\$ 89,821</u>	<u>\$ 1,195,639</u>	<u>\$ 17,409</u>	<u>(4,323,975)</u>
General Revenues:					
Taxes:					
					801,497
<i>General purpose levies</i>					
Unrestricted grants and contributions:					
					2,988,859
<i>State</i>					
					28,768
<i>Federal</i>					
					2,379
<i>Unrestricted investment earnings</i>					
					129,827
<i>Sixteenth section sources</i>					
					41,929
<i>Other</i>					
Total general revenues					<u>3,993,259</u>
Change in Net Assets					<u>(330,716)</u>
Net Assets - Beginning					733,403
Prior Period Adjustment					22,015
Net Assets - Restated					<u>755,418</u>
Net Assets - Ending					<u>\$ 424,702</u>

The accompanying notes are an integral part of this statement.

DREW SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2009

	General Fund	MAEP Bond Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
<i>Cash and cash equivalents</i>	\$ 231,271	\$ --	\$ 285,417	\$ 516,688
<i>Cash with fiscal agents</i>	--	4,609	--	4,609
<i>Investments</i>	--	24,850	--	24,850
<i>Due from other governments</i>	48,540	58,712	31,120	138,372
<i>Accrued interest receivable</i>	--	--	2,217	2,217
<i>Due from other funds</i>	13,566	--	--	13,566
<i>Advances to other funds</i>	2,000	--	--	2,000
<i>Inventories and prepaid items</i>	--	--	8,216	8,216
Total Assets	\$ 295,377	\$ 88,171	\$ 326,970	\$ 710,518
LIABILITIES AND FUND BALANCES				
Liabilities:				
<i>Accounts payable and accrued liabilities</i>	\$ 287,804	\$ --	\$ 48,125	\$ 335,929
<i>Due to other funds</i>	150	--	13,566	13,716
<i>Deferred revenue</i>	--	--	14,451	14,451
<i>Other payables</i>	75,000	--	--	75,000
Total Liabilities	362,954	--	76,142	439,096
Fund balances:				
Reserved for:				
<i>Inventory</i>	--	--	8,216	8,216
<i>Unemployment benefits</i>	--	--	38,670	38,670
<i>Debt service funds</i>	--	88,171	--	88,171
<i>Permanent funds</i>	--	--	29,634	29,634
Unreserved, undesignated, reported in:				
<i>General fund</i>	(67,577)	--	--	(67,577)
<i>Special Revenue funds</i>	--	--	174,308	174,308
Total Fund Balances	(67,577)	88,171	250,828	271,422
Total Liabilities and Fund Balances	\$ 295,377	\$ 88,171	\$ 326,970	\$ 710,518

The accompanying notes are an integral part of this statement.

DREW SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2009

Total fund balances - governmental funds balance sheet	\$ 271,422
<p>Amounts reported for governmental activities in the statement of net assets ("SNA") are different because:</p>	
Capital assets used in governmental activities are not reported in the funds.	1,013,403
Liabilities due in one year are reported in the SNA but not in the funds..	(75,000)
Payables for bond principal which are not due in the current period are not reported in the funds.	(750,000)
Payables for bond interest which are not due in the current period are not reported in the funds.	(13,067)
Payables for compensated absences not due in the current period are not reported in the funds.	<u>(22,056)</u>
Net assets of governmental activities - statement of net assets	<u>\$ 424,702</u>

The accompanying notes are an integral part of this statement.

DREW SCHOOL DISTRICT*STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**IN FUND BALANCES - GOVERNMENTAL FUNDS**FOR THE YEAR ENDED JUNE 30, 2009*

	General Fund	MAEP Bond Fund	Other Governmental Funds	Total Governmental Funds
Revenue:				
<i>Local sources</i>	\$ 887,986	\$ 155	\$ 29,049	\$ 917,190
<i>State sources</i>	2,879,326	117,424	75,321	3,072,071
<i>Federal sources</i>	28,768	--	1,148,272	1,177,040
<i>Sixteenth section sources</i>	--	--	129,827	129,827
Total revenues	<u>3,796,080</u>	<u>117,579</u>	<u>1,382,469</u>	<u>5,296,128</u>
Expenditures:				
Instruction	2,271,278	--	341,002	2,612,280
Support services	1,919,139	--	454,646	2,373,785
Noninstructional services	18,944	--	461,804	480,748
Debt service:				
<i>Principal</i>	--	70,000	--	70,000
<i>Interest</i>	--	42,420	--	42,420
<i>Other</i>	76,215	2,125	--	78,340
Total expenditures	<u>4,285,576</u>	<u>114,545</u>	<u>1,257,452</u>	<u>5,657,573</u>
Excess (deficiency) of revenues (over) expenditures	(489,496)	3,034	125,017	(361,445)
Other financing sources (uses):				
Transfers in	299,689	--	174,123	473,812
Transfers out	(174,123)	--	(299,689)	(473,812)
Total other financing sources (uses)	<u>125,566</u>	<u>--</u>	<u>(125,566)</u>	<u>--</u>
Net change in fund balance	(363,930)	3,034	(549)	(361,445)
Fund Balances:				
July 1, 2008	296,353	85,137	253,744	635,234
Increase (decrease) in reserve for inventory	--	--	(2,367)	(2,367)
June 30, 2009	<u>\$ (67,577)</u>	<u>\$ 88,171</u>	<u>\$ 250,828</u>	<u>\$ 271,422</u>

The accompanying notes are an integral part of this statement.

DREW 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, 2009*

Net change in fund balances - total governmental funds	\$ (361,445)
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	11,029
The depreciation of capital assets used in governmental activities is not reported in the funds.	(57,808)
Trade-in or disposal of capital assets decrease net assets in the SOA but not in the funds.	(60)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	70,000
(Increase) decrease in accrued interest from beginning of period to end of period.	1,191
Change in inventory is an adjustment to fund balance in the funds but affects expense in the SOA.	(2,367)
Compensated absences are reported as amount earned in SOA but as amount paid in the funds.	<u>8,744</u>
Change in net assets of governmental activities - statement of activities	<u>\$ (330,716)</u>

The accompanying notes are an integral part of this statement.

DREW SCHOOL DISTRICT

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

FIDUCIARY FUNDS

JUNE 30, 2009

	<u>Agency Funds</u>
ASSETS	
Assets:	
<i>Cash and other deposits</i>	\$ 8,274
<i>Due from other funds</i>	150
Total Assets	\$ 8,424
LIABILITIES	
Liabilities:	
<i>Due to student clubs</i>	\$ 6,424
<i>Advances from other funds</i>	2,000
Total Liabilities	\$ 8,424

The accompanying notes are an integral part of this statement.

Drew School District

Notes to the Financial Statements
June 30, 2009

Drew School District

Notes to the Financial Statements For the Year Ended June 30, 2009

(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.

As defined by accounting principles generally accepted in the United States of America, the school district is considered an "other stand-alone government." The school district is a related organization of, but not a component unit of, the city of Drew since the governing authority of the city selects a majority of the school district's board but does not have financial accountability for the school district.

For financial reporting purposes, Drew School District has included all funds and organizations. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District.

B. Basis of Presentation.

Government-wide Financial Statements:

The Statement of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

1. Invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, and reduced by outstanding balances of bonds, notes, and other debt attributable to the acquisition, construction, or

Drew School District

Notes to the Financial Statements
For the Year Ended June 30, 2009

improvement of those assets.

2. Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
3. Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements:

Separate financial statements are provided for governmental, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other governmental funds.

The school district reports the following major governmental funds:

General Fund - This is the school district's primary operating fund. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

MAEP Bond Fund - This fund is used to account for the revenues used to retire the principal and interest on the MAEP debt.

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

The District's fiduciary funds include three (3) agency funds, which are used to report resources held by the district in a purely custodial capacity.

Additionally, the school district reports the following fund types:

Drew School District

Notes to the Financial Statements
For the Year Ended June 30, 2009

GOVERNMENTAL FUND TYPES

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

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

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

FIDUCIARY FUNDS

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

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 recorded when earned, and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and judgments, are recorded only when payment is due.

Federal grants and assistance awards made on the basis of entitlement periods are recorded as receivables and revenues when entitlement occurs. Federal reimbursement type grants are recorded as revenues when the related expenditures

Drew School District

Notes to the Financial Statements For the Year Ended June 30, 2009

are recognized. Use of grant resources is conditioned upon compliance with terms of the grant agreements and applicable federal regulations, which include subjecting grants to financial and compliance audits.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual.

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

Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

The effect of inter-fund activity has been eliminated from the government-wide statements.

Revenues from the Mississippi 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.

D. Account Classifications.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting* as issued in 2005 by the Government Finance Officers Association and are consistent with the broad classifications recommended in the *Financial Accounting for Local and State School Systems, 2003* issued by the U.S. Department of Education.

E. Encumbrances.

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

Drew School District

Notes to the Financial Statements For the Year Ended June 30, 2009

F. Assets, liabilities, and net assets or equity.

1. Cash, Cash equivalents and Investments

Cash and cash equivalents.

The district's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. 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.

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 Sections 27-105-33, Miss. Code Ann. (1972), or in any other type investment in which any other agency, instrumentality or subdivision of the State of Mississippi may invest, except that 100% of said funds are authorized to be so invested.

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

Investments for the district are reported at fair market value.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

3. Due from Other Governments

Due from other governments represents amounts due from the State of Mississippi, and various grants and reimbursements from other governments.

Drew School District

Notes to the Financial Statements For the Year Ended June 30, 2009

4. 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.

5. Restricted Assets

Certain resources set aside for repayment of debt are classified as restricted assets on the statement of net assets because their use is limited by applicable debt statutes. Also, the nonexpendable portion of the Permanent Fund, if applicable, is classified as restricted assets because the Sixteenth Section Principal fund is not available for use by the district except as provided for under state statute for loans from this account.

6. Capital Assets

Capital assets, which include property, plant, furniture and equipment, are reported in the applicable governmental activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost or estimated historical cost based on appraisals or deflated current replacement cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the thresholds in the following table and estimated useful lives in excess of two years.

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.

Depreciation is calculated on the straight-line basis for all assets, except land.

The following schedule details the capitalization thresholds.

Drew School District

Notes to the Financial Statements
For the Year Ended June 30, 2009

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

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

7. **Compensated Absences**

Employees of the school district accumulate sick leave at a minimum amount as required by state law. A greater amount may be provided by school district policy provided that it does not exceed the provisions for leave as provided in Sections 25-3-93 and 25-3-95. Some employees are allowed personal and/or vacation leave in accordance with school district policy. The district pays for unused leave for employees as required to do so by Section 37-7-307(5), Miss. Code Ann. (1972).

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

8. **Long-term Liabilities, Deferred Debt Expenses, and Bond Discounts/Premiums.**

In the government-wide financial statements, outstanding debt is reported as liabilities. Bond issue costs, bond discounts or premiums, and the difference between reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures. See Note 6 for details.

Drew School District

Notes to the Financial Statements For the Year Ended June 30, 2009

9. Fund equity.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between 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 are descriptions of fund reserves used by the district:

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

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

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

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

Unreserved, undesignated - An account that represents portions of fund balance that is expendable available financial resources.

(2) Cash and Cash Equivalents, Cash with Fiscal Agents and Investments.

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

Deposits. The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the school districts' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State

Drew School District

Notes to the Financial Statements For the Year Ended June 30, 2009

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 Deposit Insurance Corporation.

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

Cash and Cash Equivalents.

The carrying amount of the school district's deposits reported in the governmental funds and fiduciary funds was \$516,688 and \$8,274, respectively. The carrying amount of deposits reported in government-wide statements was \$487,882. The bank balance was \$508,568.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2009, none of the district's bank balance of \$508,568 was exposed to custodial credit risk.

Cash with Fiscal Agents.

The carrying amount of school district's cash with fiscal agents held by financial institution was \$4,609.

Drew School District

Notes to the Financial Statements For the Year Ended June 30, 2009

Investments.

As of June 30, 2009, the district had the following investments. All investments are in an internal investment pool.

Investment Type	Maturities (in years)	Fair Value	Rating
Money Market Fund	Not applicable	\$ 24,850	A
Total Investments		\$ 24,850	

Interest Rate Risk. The district does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to those prescribed in Sections 27-105-33(d) and 27-105-33(e), Miss. Code Ann. (1972). The district does not have a formal investment policy that would further limit its investments choices or one that addresses credit risk.

Custodial Credit Risk - Investments. Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk. The investment in the Hancock Horizon Treasury Securities Money Market Fund is uninsured and unregistered and is not backed by the full faith and credit of the federal government.

Concentration of Credit Risk. Disclosures of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2009, the district had the following investments:

Issuer	Fair Value	% of Total Investments
Hancock Horizon Treasury Securities Money Securities Money Market Class A	\$ 24,850	100%

(3) Restricted Assets.

The restricted assets represent the cash balance, totaling \$28,806 of the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs.

(4) Interfund Receivables, Payables, and Transfers.

The following is a summary of interfund transactions and balances:

Drew School District

Notes to the Financial Statements
For the Year Ended June 30, 2009

A. Due From/To Other Funds.

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 13,566
Fiduciary Funds	General Fund	<u>150</u>
Total		\$ <u><u>13,716</u></u>

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

B. Advances To/From Other Funds.

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Fiduciary Funds	\$ <u>2,000</u>
Total		\$ <u><u>2,000</u></u>

Advances were for cash flow purposes.

C. Interfund Transfers.

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 299,689
Other Governmental Funds	General Fund	<u>174,123</u>
Total		\$ <u><u>473,812</u></u>

Transfers were made for indirect cost transfers and budgetary allocations. All transfers were routine and consistent with the fund making the transfer.

(5) Capital Assets.

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

	<u>Balance 7-1-2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	<u>Balance 6-30-2009</u>
<u>Non-depreciable capital assets:</u>					
Land	\$ 36,500				36,500
Total non-depreciable capital assets	<u>36,500</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>36,500</u>
<u>Depreciable capital assets:</u>					
Buildings	1,805,997				1,805,997
Mobile equipment	339,596			30,151	369,747

Drew School District

Notes to the Financial Statements For the Year Ended June 30, 2009

Furniture and equipment	330,863	11,029	6,000	(36,319)	299,573
Total depreciable capital assets	2,476,456	11,029	6,000	(6,168)	2,475,317
<u>Less accumulated depreciation for :</u>					
Buildings	963,315	26,796			990,111
Mobile equipment	242,951	6,840		(7,682)	242,109
Furniture and equipment	268,463	24,172	5,940	(20,501)	266,194
Total accumulated depreciation	1,474,729	57,808	5,940	(28,183)	1,498,414
Total depreciable capital assets, net	1,001,727	(46,779)	60	22,015	976,903
Governmental activities capital assets, net	\$ 1,038,227	(46,779)	60	22,015	1,013,403

Adjustments were made to correctly state capital assets.

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$ 707
Support services	44,097
Non-instructional	13,004
Total depreciation expense	<u>\$ 57,808</u>

(6) Long-term liabilities.

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

		Balance 7-1-2008	Reductions	Balance 6-30-2009	Amounts due within one year
A. Limited obligation bonds	\$	895,000	70,000	825,000	75,000
B. Compensated absences payable		30,800	8,744	22,056	
Total	\$	<u>925,800</u>	<u>78,744</u>	<u>847,056</u>	<u>75,000</u>

A. Limited obligations 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 Improvement	4.8%	03-17-1998	03-17-2018	\$ 1,335,000	825,000
Total				<u>\$ 1,335,000</u>	<u>825,000</u>

Drew School District

Notes to the Financial Statements For the Year Ended June 30, 2009

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>
2010	\$	75,000	39,200	114,200
2011		80,000	35,750	115,750
2012		85,000	31,990	116,990
2013		85,000	27,994	112,994
2014		90,000	24,000	114,000
2015-2018		<u>410,000</u>	<u>50,400</u>	<u>460,400</u>
Total	\$	<u>825,000</u>	<u>209,334</u>	<u>1,034,334</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 37-151-7 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 Debt Retirement Fund.

B. Compensated absences payable.

As more fully explained in Note 1(F)(7), 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.

(7) Defined Benefit Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The rate for fiscal year ended June 30, 2009 was 11.85% 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, 2009, 2008 and 2007 were

Drew School District

Notes to the Financial Statements For the Year Ended June 30, 2009

\$362,712, \$374,673, and \$345,930 respectively, which equaled the required contributions for each year.

(8) Sixteenth Section Lands.

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

Year Ending June 30	Amount
2010	\$ 97,900
2011	12,400
2012	12,400
2013	12,400
Total	\$ <u>135,100</u>

(9) Contingencies.

Federal Grants - The school district has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowances resulting from the grantor audit may become a liability of the school district.

(10) Risk Management.

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

Participation in Public Entity Risk Pool.

The school district is a member of the Mississippi Public Entity Workers' Compensation

Drew School District

Notes to the Financial Statements
For the Year Ended June 30, 2009

Trust (MPEWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust covers risks of loss arising from injuries to the school district's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of the MPEWCT contributes quarterly to a fund held in trust. The funds in the trust account are used to pay any claim up to \$1,000,000. For a claim exceeding \$1,000,000, MPEWCT 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.

(11) Alternative School Consortium.

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

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

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

(12) Short -Term Financing.

During the fiscal year ended June 30, 2009, the Drew School District participated in the following short-term financing(s) for the purpose of cash flow needs.

A. Bank-Financed Short Term Debt

The Drew School District issued a revenue anticipation note payable to Southern Bancorp, and the proceeds from such issuance are accounted for as a current liability in the fund of the school district. Once the cash flow was available, the district made a

Drew School District

Notes to the Financial Statements
For the Year Ended June 30, 2009

payment consisting of principal and interest to the trustee.

All transactions related to participation in this program are accounted for as part of the school district's General Fund.

Changes in short-term debt activity recorded in the governmental activities during the fiscal year 2009 are as follows:

	Balance 7-1-2008	Additions	Reductions	Balance 6-30-2009
Revenue anticipation note payable	\$ 0	75,000		75,000
Revenue anticipation note payable	0	75,000	75,000	0
Total	\$ 0	150,000	75,000	75,000

(13) Deficit Fund Balance of Individual Funds.

The District Maintenance Fund has a deficit fund balance in the amount \$70,791. The deficit fund balance of the District Maintenance Fund is in violation of Section 37-61-19, Miss. Code Ann. (1972). Section 37-61-19, Miss. Code Ann. (1972), imposes personal liability on any school official who knowingly enters into any contract, incurs any liability, or makes any expenditure in excess of the resources available for the fiscal year under certain circumstances.

(14) 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 Adjustments were made to correctly state capital assets	\$ 22,015
Total	\$ 22,015

REQUIRED SUPPLEMENTARY INFORMATION

DREW SCHOOL DISTRICT
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2009

Exhibit 1

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 951,971	887,987	887,986	(63,984)	(1)
State sources	3,099,112	2,879,327	2,879,326	(219,785)	(1)
Federal sources	35,000	28,768	28,768	(6,232)	0
Total Revenues	<u>4,086,083</u>	<u>3,796,082</u>	<u>3,796,080</u>	<u>(290,001)</u>	<u>(2)</u>
Expenditures:					
Instruction	2,273,753	2,300,407	2,271,278	(26,654)	29,129
Support services	1,773,040	1,920,601	1,919,139	(147,561)	1,462
Noninstructional services	18,629	18,944	18,944	(315)	0
Debt Service:					
Principal		75,000			
Interest		1,215			
Other			76,215		
Total Expenditures	<u>4,065,422</u>	<u>4,316,167</u>	<u>4,285,576</u>	<u>(250,745)</u>	<u>30,591</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>20,661</u>	<u>(520,085)</u>	<u>(489,496)</u>	<u>(540,746)</u>	<u>30,589</u>
Other Financing Sources (Uses):					
Proceeds of Loans		75,000		75,000	(75,000)
Transfers In	743,207	742,066	299,689	(1,141)	(442,377)
Transfers Out	(610,303)	(501,958)	(174,123)	108,345	327,835
Other financing uses	(112,530)			112,530	0
Total Other Financing Sources (Uses)	<u>20,374</u>	<u>315,108</u>	<u>125,566</u>	<u>294,734</u>	<u>(189,542)</u>
Net Change in Fund Balances	<u>41,035</u>	<u>(204,977)</u>	<u>(363,930)</u>	<u>(246,012)</u>	<u>(158,953)</u>
Fund Balances:					
July 1, 2008	171,745	171,745	296,353	0	124,608
Prior period adjustments (Note)		40,000		40,000	(40,000)
July 1, 2008, as restated	<u>171,745</u>	<u>211,745</u>	<u>296,353</u>	<u>40,000</u>	<u>84,608</u>
June 30, 2009	<u>\$ 212,780</u>	<u>6,768</u>	<u>(67,577)</u>	<u>(206,012)</u>	<u>(74,345)</u>

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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

Drew School District

Notes to the Required Supplementary Information
For the Year Ended June 30, 2009

Budgetary Comparison Schedule

(1) Basis of Presentation.

The Budgetary Comparison Schedule 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.

The budget is adopted by the school board and filed with the taxing authority. Amendments can be made on the approval of the school board. By statute, final budget revisions must be approved on or before October 15. A budgetary comparison is presented for the general fund consistent with accounting principles generally accepted in the United States of America.

SUPPLEMENTAL INFORMATION

Drew School District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2009

Schedule 1

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	Catalog of Federal Domestic Assistance Number	Federal <u>Expenditures</u>
U. S. DEPARTMENT OF AGRICULTURE/		
Passed-through the Mississippi Department of Education:		
Child Nutrition Cluster:		
School Breakfast Program	10.553	129,856
National School Lunch Program	10.555	271,388
Total child nutrition cluster		401,244
TOTAL U. S. DEPARTMENT OF AGRICULTURE		401,244
FEDERAL COMMUNICATION COMMISSION		
Administered through Universal Service Administrative Company:		
Communications Information and Assistance and Investigation of Complaints	32.001	28,768
Total Federal Communication Commission		28,768
Passed-through the Mississippi Department of Education:		
Title I Grants to Local Educational Agencies	84.010	492,976
Safe and Drug-Free Schools and Communities - State Grants	84.186	7,828
Education Technology State Grants	84.318	5,615
Rural Education	84.358	15,742
Reading First State Grants	84.357	753
Improving Teacher Quality State Grants	84.367	98,589
Total		621,503
Special Education Cluster:		
Special Education - Grants to States	84.027	118,179
Special Education - Preschool Grants	84.173	2,831
Total special education cluster		121,010
Total passed-through the Mississippi Department of Education		742,513
TOTAL U. S. DEPARTMENT OF EDUCATION		742,513
TOTAL FOR ALL FEDERAL AWARDS		\$1,172,525

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.

Drew School District
 Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
 For the Year Ended June 30, 2009

Expenditures	Total	Instruction and Other Student Instructional Expenditures		
		General Administration	School Administration	Other
Salaries and fringe benefits	\$ 4,299,797	436,701	336,585	599,260
Other	1,357,776	154,741	12,652	707,938
Total	\$ <u>5,657,573</u>	<u>591,442</u>	<u>349,237</u>	<u>1,307,198</u>

Total number of students * 607

Cost per student \$ 9,320 5,617 974 575 2,154

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); Support Services - Business (2500s)

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

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

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

OTHER SUPPLEMENTAL INFORMATION

DREW SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

"UNAUDITED"

General Fund

Last Four Years

	<u>2009</u>	<u>2008*</u>	<u>2007*</u>	<u>2006*</u>
Revenues:				
Local sources	\$ 887,986	856,318	864,598	865,929
State sources	2,879,326	3,118,340	2,858,525	2,700,373
Federal sources	28,768	40	35,599	35,768
Total Revenues	<u>3,796,080</u>	<u>3,974,698</u>	<u>3,758,722</u>	<u>3,602,070</u>
Expenditures:				
Instruction	2,271,278	2,231,438	2,268,421	2,114,705
Support services	1,919,139	1,901,324	1,666,573	1,804,298
Noninstructional services	18,944	982	13,806	810
Debt service:				
Other	76,215			
Total Expenditures	<u>4,285,576</u>	<u>4,133,744</u>	<u>3,948,800</u>	<u>3,919,813</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(489,496)</u>	<u>(159,046)</u>	<u>(190,078)</u>	<u>(317,743)</u>
Other Financing Sources (Uses):				
Operating transfers in	299,689	148,337	142,083	268,514
Operating transfers out	(174,123)	(97,622)	(63,230)	(152,031)
Total Other Financing Sources (Uses)	<u>125,566</u>	<u>50,715</u>	<u>78,853</u>	<u>116,483</u>
Net Change in Fund Balances	<u>(363,930)</u>	<u>(108,331)</u>	<u>(111,225)</u>	<u>(201,260)</u>
Fund Balances:				
July 1,	296,353	404,684	475,909	677,169
Prior Period Adjustments			40,000	
July 1, as restated	<u>296,353</u>	<u>404,684</u>	<u>515,909</u>	<u>677,169</u>
June 30,	<u>\$ (67,577)</u>	<u>296,353</u>	<u>404,684</u>	<u>475,909</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

DREW SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

"UNAUDITED"

All Governmental Funds

Last Four Years

	<u>2009</u>	<u>2008*</u>	<u>2007*</u>	<u>2006*</u>
Revenues:				
Local sources	\$ 917,190	885,388	896,449	900,769
State sources	3,072,071	3,298,229	3,042,122	2,881,032
Federal sources	1,177,040	1,492,811	1,688,804	1,625,252
Sixteenth section sources	<u>129,827</u>	<u>126,713</u>	<u>120,941</u>	<u>159,493</u>
Total Revenues	<u>5,296,128</u>	<u>5,803,141</u>	<u>5,748,316</u>	<u>5,566,546</u>
Expenditures:				
Instruction	2,612,280	2,878,809	2,959,810	2,792,978
Support services	2,373,785	2,490,860	2,343,000	2,510,718
Noninstructional services	480,748	396,386	435,878	466,557
Sixteenth section		165		35,193
Debt service:				
Principal	70,000	70,000	65,000	60,000
Interest	42,420	46,646	49,695	53,115
Other	<u>78,340</u>			
Total Expenditures	<u>5,657,573</u>	<u>5,882,866</u>	<u>5,853,383</u>	<u>5,918,561</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(361,445)</u>	<u>(79,725)</u>	<u>(105,067)</u>	<u>(352,015)</u>
Other Financing Sources (Uses):				
Operating transfers in	473,812	245,958	205,312	420,545
Operating transfers out	<u>(473,812)</u>	<u>(245,958)</u>	<u>(205,312)</u>	<u>(420,545)</u>
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	<u>(361,445)</u>	<u>(79,725)</u>	<u>(105,067)</u>	<u>(352,015)</u>
Fund Balances:				
July 1,	635,234	715,485	789,212	1,143,493
Prior Period Adjustments			<u>40,000</u>	
July 1, as restated	<u>635,234</u>	<u>715,485</u>	<u>829,212</u>	<u>1,143,493</u>
Increase (Decrease) in reserve for inventory	<u>(2,367)</u>	<u>(526)</u>	<u>(8,660)</u>	<u>(2,266)</u>
June 30,	<u>\$ 271,422</u>	<u>635,234</u>	<u>715,485</u>	<u>789,212</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

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
Drew School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Drew School District as of and for the year ended June 30, 2009, which collectively comprise the Drew School District's basic financial statements and have issued our report thereon dated March 8, 2010. 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 opinions 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 certain deficiencies in the internal control over financial reporting that we consider to be significant deficiencies.

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 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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as Findings 2009-1, 2009-2 and 2009-3 to be significant deficiencies 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

AICPA & MSCPA

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will not be prevented or detected by the school district's internal control.

Our consideration of the internal control over financial reporting was for the limited purposes 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, of the significant deficiencies described above, we consider Findings 2009-1 and 2009-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as Finding 2009-2. We also noted a certain immaterial instance of noncompliance or other matter that we have reported to management of the school district in a separate letter dated March 8, 2010, which is included in this report.

Drew School District's responses to the findings identified in our audit are described in the accompanying Auditee's Corrective Action Plan. We did not audit Drew School District's responses and, accordingly, we express no opinion on them.

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
March 8, 2010

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
Drew School District

Compliance

We have audited the compliance of the Drew School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2009. 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 that 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 Drew School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the Drew School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the school district's internal control over compliance with the 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.

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 more than 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, others within the entity, 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
March 8, 2010

Certified Public Accountants

FORTENBERRY & BALLARD, PC
Certified Public Accountants

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

Superintendent and School Board
Drew School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Drew School District as of and for the year ended June 30, 2009, which collectively comprise Drew School District's basic financial statements and have issued our report thereon dated March 8, 2010. 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(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds". As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our procedures performed to test compliance with the requirements of Section 37-61-33 (3)(a)(iii), Miss. Code Ann. (1972), disclosed the following instance of noncompliance. The noncompliance is reported in finding number 1 below. The district reported \$9,429 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 instance of noncompliance described in Finding 2009-2 in the Schedule of Findings and Questioned Costs. Our immaterial 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 1:

Section 37-61-33, Miss. Code Ann. (1972), requires that Mississippi Public School Districts allocate Education Enhancement Funds (EEF) for classroom supplies equally among all classroom teachers in the school district. During our test work at Drew School District, we noted that the district allocated part of the EEF classroom supplies allocation to a federally-funded classroom teacher and did not allocate funds equally among teachers. Classroom supply funds were not adequately tracked by teacher. Noncompliance with Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), could result in the district allowing some teachers to spend other teachers' allocation.

Recommendation

We recommend that the district comply with Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), which requires the district to allocate Education Enhancement Funds (EEF) classroom supply funds equally among all classroom teachers. The teacher receiving these funds should properly record and document all expenditures that have occurred while utilizing funds.

Response:

The district will comply with Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), which requires the district to allocate Education Enhancement Funds (EEF) classroom supply funds equally among all classroom teachers. The teacher receiving these funds will implement a procedure to properly record and document all expenditures that have occurred while utilizing these funds.

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

The Drew School District's response to the finding included in this report was not audited and, accordingly, we express no opinion on it.

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
March 8, 2010

Certified Public Accountants

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FINDINGS, CORRECTIVE ACTION PLAN AND AUDIT FOLLOW-UP

Drew School District

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2009

Section 1: Summary of Auditor's Results

Financial Statements:

1. Type of auditor's report issued on the financial statements: Unqualified.
2. Material noncompliance relating to the financial statements? Yes.
3. Internal control over financial reporting:
 - a. Material weakness(es) identified? Yes.
 - b. Significant deficiency identified that is not considered to be material weaknesses? Yes.

Federal Awards:

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

Section 2: Findings Relating to the Financial Statements

The results of our tests disclosed the following findings related to the financial statements that are required to be reported by *Government Auditing Standards*.

Material Weakness:

Finding 2009-1

An important aspect of the entity's internal control is the timely preparation of bank account reconciliations to the general ledger by fund. During our audit we noted that these reconciliations were not timely made. Failure to prepare monthly bank reconciliations may result in errors or fraud occurring without being detected in a timely manner.

Recommendation:

We recommend the district perform bank reconciliations to the general ledger monthly.

Material Weakness and Material Noncompliance:

Finding 2009-2

Section 37-61-19, Miss. Code Ann. (1972), states that it shall be the duty of the superintendent and school board members to limit the expenditure of school funds during the fiscal year to the resources available. The District Maintenance fund has a deficit fund balance in the amount of \$70,791.

Recommendation:

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

Significant Deficiency:

Finding 2009-3

Generally Accepted Accounting Principles in the United States of America require the presentation of capital asset records. The school district did not maintain the capital asset records nor the inventory of these assets. The failure to have capital assets inventoried and reconciled could potentially result in overstatement or understatement of capital assets and depreciation expense or even the loss of the assets themselves.

Recommendation:

Internal controls should be implemented to ensure that the district properly maintains the capital asset records. A capital assets inventory should be performed each year in addition to the supply inventory as an internal control over the stewardship of these assets.

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.

Drew School District
286 West Park Avenue
Drew, MS 38737
Jacqueline Lockett - Interim Superintendent
June Davis - Business Manager

AUDITEE'S CORRECTIVE ACTION PLAN

As required by Section __.315(b) of OMB Circular A-133, the Drew School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Cost for the year ended June 30, 2009:

Finding
2009-1

Corrective Action Plan Details

a. Name of Contact Person Responsible for Corrective Action

Name: June Davis
Phone Number: 662-745-6657

b. Corrective Action Planned:

The district will perform monthly reconciliations of bank accounts to the general ledger by fund in order to effectively and timely account for any variances from the book balances.

c. Anticipated Completion Date:

6/30/2010

2009-2

a. Name of Contact Person Responsible for Corrective Action

Name: June Davis
Phone Number: 662-745-6657

b. Corrective Action Planned:

The district will monitor expenditures to comply with Section 37-61-19.

c. Anticipated Completion Date:

6/30/2010

2009-3

a. Name of Contact Person Responsible for Corrective Action

Name: June Davis

Phone Number: 662-745-6657

b. Corrective Action Planned:

Internal controls will be implemented to ensure that the district properly maintains the capital asset records and inventory.

c. Anticipated Completion Date:

6/30/2010