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Audited Financial Statements
June 30, 2010

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, 2010, 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, 2010, 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 November 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 and the Budgetary Comparison Schedules and corresponding notes are not a required part of the basic financial statements but are supplemental 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 supplemental information. However, we did not audit the information and express no opinion on it.

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

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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
November 8, 2010

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

**DREW SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

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, 2010. 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 2010 decreased \$173,705, including a prior period adjustment of \$53,080, which represents a 41% decrease from fiscal year 2009.
- General revenues amounted to \$3,845,353 and \$3,993,259, or 69% and 75% of all revenues for fiscal years 2010 and 2009, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$1,718,738 or 31% of total revenues for 2010, and \$1,302,869 or 25% of total revenues for 2009.
- The District had \$5,677,534 and \$5,626,844 in expenses for the fiscal years 2010 and 2009; only \$1,718,738 for 2010 and \$1,302,869 for 2009 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$3,845,353 for 2010 and \$3,993,259 for 2009 were not adequate to provide for these programs in 2010 or 2009.
- Among major funds, the General Fund had \$3,391,843 in revenues and \$3,712,429 in expenditures for 2010, and \$3,796,080 in revenues and \$4,285,576 in expenditures for 2009. The General Fund's fund balance increased \$89,231, including a prior period adjustment of \$52,451 from 2009 to 2010, and decreased by \$363,930 from 2008 to 2009.
- Capital assets, net of accumulated depreciation, decreased by \$59,528 for 2010 and decreased by \$24,824 for 2009. The cause of this decrease was due primarily to the retirement of mobile equipment and furniture and equipment.
- Long-term debt increased by \$134,500 for 2010 and decreased by \$70,000 for 2009. This increase was due primarily to the addition of a shortfall note. The liability for compensated absences increased by \$2,664 for 2010 and decreased by \$8,744 for 2009.

OVERVIEW OF THE 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 supplemental information concerning the District's budget process.

The District adopts an annual operating budget for all governmental funds. Budgetary comparison schedule has been provided for the General Fund and each additional major special revenue 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 \$251,627 as of June 30, 2010.

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, 2010, and June 30, 2009.

Table 1
Condensed Statement of Net Assets

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>Percentage Change</u>
Current assets	\$ 621,879	668,146	(7)%
Restricted assets	62,001	28,806	115%
Capital assets, net	<u>953,875</u>	<u>1,013,403</u>	(6)%
Total assets	<u>1,637,755</u>	<u>1,710,355</u>	(4)%
Current liabilities	401,908	438,597	(8)%
Long-term debt	<u>984,220</u>	<u>847,056</u>	16%
Total liabilities	<u>1,386,128</u>	<u>1,285,653</u>	8%
Net assets:			
Invested in capital assets, net of related debt	203,875	188,403	8%
Restricted	260,318	325,932	(20)%
Unrestricted	<u>(212,566)</u>	<u>(89,633)</u>	137%
Total net assets	<u>\$ 251,627</u>	<u>424,702</u>	(41)%

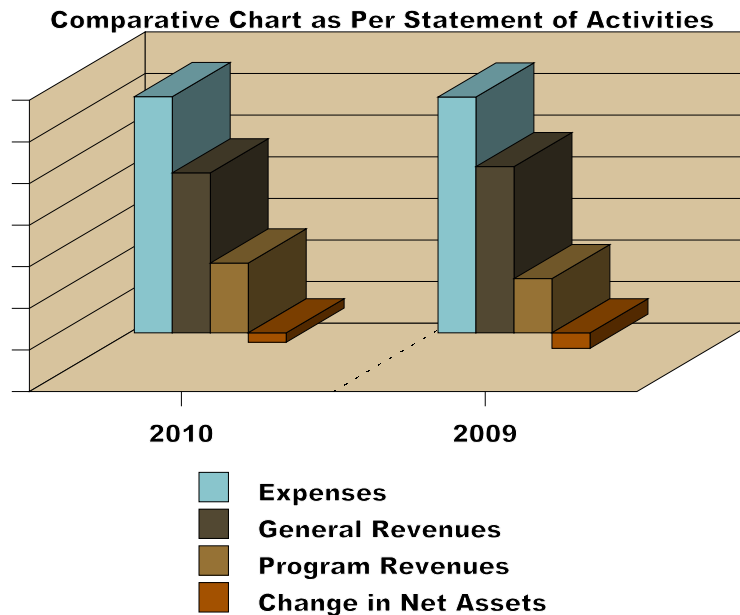
The following are significant current year transactions that have had an impact on the Statement of Net Assets.

- Decrease in net capital assets in the amount of \$59,528.
- The principal retirement of \$75,000 of long-term debt..

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2010 and June 30, 2009 were \$5,564,091 and \$5,296,128. The total cost of all programs and services was \$5,677,534 for 2010 and \$5,626,844 for 2009. Table 2 presents a summary of the changes in net assets for the fiscal year ended June 30, 2010 and June 30, 2009.

Table 2
Changes in Net Assets

	Year Ended June 30, 2010	Year Ended June 30, 2009	Percentage Change
Revenues:			
Program revenues:			
Charges for services	\$ 45,551	89,821	(49)%
Operating grants and contributions	1,658,919	1,195,639	39%
Capital grants and contributions	14,268	17,409	(18)%
Total program revenues	<u>1,718,738</u>	<u>1,302,869</u>	32%
General revenues:			
Property taxes	670,385	801,497	(16)%
Grants and contributions not restricted	3,017,631	3,017,627	0%
Unrestricted investment earnings	390	2,379	(84)%
Sixteenth section sources	138,316	129,827	7%
Other	18,631	41,929	(56)%
Total general revenues	<u>3,845,353</u>	<u>3,993,259</u>	(4)%
Total revenues	<u>5,564,091</u>	<u>5,296,128</u>	5%
Expenses:			
Instruction	2,783,584	2,593,274	7%
Support services	2,409,751	2,417,882	0%
Non-instructional	433,945	496,119	(13)%
Sixteenth section	1,500		
Interest on long-term debt	48,754	119,569	(59)%
Total expenses	<u>5,677,534</u>	<u>5,626,844</u>	1%
Special Items	<u>(112,712)</u>		
Increase (decrease) in net assets	<u>(226,155)</u>	<u>(330,716)</u>	(32)%
Net Assets, July 1	424,702	733,403	(42)%
Prior Period Adjustment	53,080	22,015	141%
Net Assets, Restated	<u>477,782</u>	<u>755,418</u>	(37)%
Net Assets, June 30	<u>\$ 251,627</u>	<u>424,702</u>	(41)%



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.

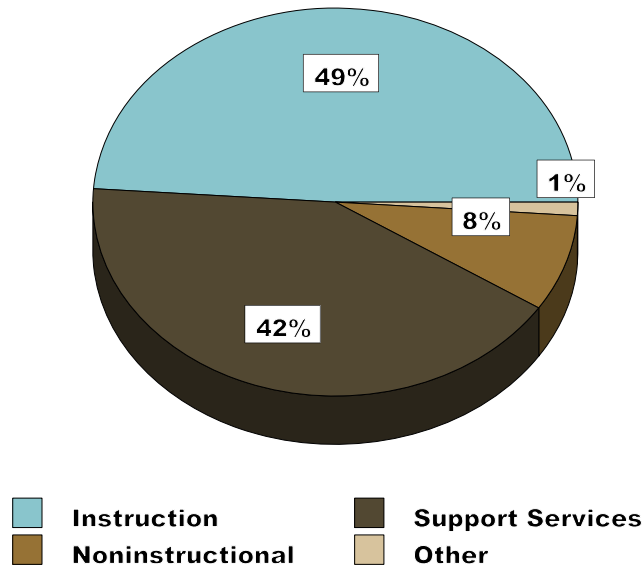
Table 3
Net Cost of Governmental Activities

	Total Expenses		Percentage Change
	2010	2009	
Instruction	\$ 2,783,584	2,593,274	7%
Support services	2,409,751	2,417,882	0%
Non-instructional	433,945	496,119	(13)%
Sixteenth section	1,500		
Interest on long-term liabilities	48,754	119,569	(59)%
Total Expenses	\$ 5,677,534	5,626,844	1%

Net (Expense) Revenue

	2010	2009	Percentage Change
Instruction	\$ (2,186,591)	(2,178,408)	0%
Support services	(1,728,843)	(1,946,898)	(11)%
Non-instructional	6,892	(79,100)	(109)%
Sixteenth section	(1,500)		
Interest on long-term liabilities	(48,754)	(119,569)	(59)%
Total Net (expense) revenue	\$ (3,958,796)	(4,323,975)	(8)%

Chart of Expenses as Per Statement of Activities



- Net cost of governmental activities (\$3,958,796 for 2010 and \$4,323,975 for 2009) was financed by general revenue, which is made up of primarily property taxes (\$670,385 for 2010 and \$801,497 for 2009) and state and federal revenues (\$3,017,631 for 2010 and \$3,017,627 for 2009). In addition, there was \$138,316 and \$129,827 in Sixteenth Section sources for 2010 and 2009 respectively.
- Investment earnings amounted to \$390 for 2010 and \$2,379 for 2009.

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 \$304,043, an increase of \$32,621, which includes a prior period adjustment of \$53,080, and increase in inventory of \$3,716. \$154,360 or 51% 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 \$149,683 or 49% 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 increase in fund balance in the General Fund for the fiscal year was \$89,231. The fund balance of Other Governmental Funds showed a decrease of \$59,288, including a prior period adjustment of \$629 and increase in reserve for inventory of \$3,716 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)
Title I ARRA Fund	\$ No increase or decrease
Twenty First Century Grant Fund	No increase or decrease
MAEP Bond Fund	2,678

BUDGETARY HIGHLIGHTS

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

A schedule showing the original and final budget amounts compared to the District’s actual financial activity for the General Fund and each major Special Revenue fund is provided in this report as required supplemental information.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2010, the District’s total capital assets were \$2,396,759, including land, buildings, buses, other school vehicles, mobile equipment and furniture and equipment. This amount represents a decrease of \$115,058 from 2009. Total accumulated depreciation as of June 30, 2010 was \$1,442,884 and total depreciation expense for the year was \$62,031, resulting in total net capital assets of \$953,875.

Table 4
Capital Assets, Net of Accumulated Depreciation

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>Percentage Change</u>
Land	\$ 36,500	36,500	0%
Buildings	789,089	815,886	(3)%
Mobile equipment	83,827	127,638	(34)%
Furniture and equipment	44,459	33,379	33%
Total	\$ <u>953,875</u>	<u>1,013,403</u>	(6)%

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

Debt Administration. At June 30, 2010, the District had \$959,500 in outstanding long-term debt, of which \$146,488 is due within one year. In addition, the liability for compensated absences increased from the prior year.

Table 5
Outstanding Long-Term Debt

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>Percentage Change</u>
Limited obligation bonds payable	\$ 750,000	825,000	(9)%
Shortfall notes payable	209,500		
Compensated absences payable	24,720	22,056	12%
Total	\$ <u>984,220</u>	<u>847,056</u>	16%

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 2009-2010 year decreased by 11% to 540 students.

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FINANCIAL STATEMENTS

DREW SCHOOL DISTRICT

STATEMENT OF NET ASSETS

JUNE 30, 2010

	Governmental Activities
Assets	
<i>Cash and cash equivalents</i>	\$ 375,295
<i>Due from other governments</i>	234,652
<i>Inventories</i>	11,932
<i>Restricted assets</i>	62,001
<i>Capital assets, non-depreciable:</i>	
<i>Land</i>	36,500
<i>Capital assets, net of accumulated depreciation:</i>	
<i>Buildings</i>	789,089
<i>Mobile equipment</i>	83,827
<i>Furniture and equipment</i>	44,459
Total Assets	<u>1,637,755</u>
Liabilities	
<i>Accounts payable and accrued liabilities</i>	304,688
<i>Due to other governments</i>	149
<i>Other Payables</i>	75,000
<i>Interest payable on long-term liabilities</i>	22,071
Long-term liabilities (due within one year):	
<i>Capital related liabilities</i>	80,000
<i>Non-capital related liabilities</i>	66,488
Long-term liabilities (due beyond one year)	
<i>Capital related liabilities</i>	670,000
<i>Non-capital related liabilities</i>	167,732
Total Liabilities	<u>1,386,128</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	203,875
Restricted Net Assets:	
Expendable:	
School-based activities	144,638
Debt service	68,778
Unemployment benefits	17,038
Sixteenth section	1,058
Non-expendable:	
Sixteenth section	28,806
Unrestricted	(212,566)
Total Net Assets	<u>\$ 251,627</u>

The accompanying notes are an integral part of this statement.

DREW SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

Functions/Programs	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions		
Governmental Activities:					Governmental Activities
<i>Instruction</i>	2,783,584	25,935	556,790	14,268	(2,186,591)
<i>Support services</i>	2,409,751	892	680,016	--	(1,728,843)
<i>Noninstructional services</i>	433,945	18,724	422,113	--	6,892
<i>Sixteenth section</i>	1,500	--	--	--	(1,500)
<i>Interest on long-term liabilities</i>	48,754	--	--	--	(48,754)
Total Governmental Activities	<u>\$ 5,677,534</u>	<u>\$ 45,551</u>	<u>\$ 1,658,919</u>	<u>\$ 14,268</u>	<u>(3,958,796)</u>
General Revenues:					
Taxes:					
					670,385
<i>General purpose levies</i>					
Unrestricted grants and contributions:					
					2,761,088
<i>State</i>					
					256,543
<i>Federal</i>					
					390
<i>Unrestricted investment earnings</i>					
					138,316
<i>Sixteenth section sources</i>					
					18,631
<i>Other</i>					
Total General Revenues					<u>3,845,353</u>
<i>Special Item</i>					
Total General Revenues and Special Items					<u>(112,712)</u>
					<u>3,732,641</u>
Change in Net Assets					
					<u>(226,155)</u>
Net Assets - Beginning, as originally reported					
					424,702
Prior Period Adjustment					
					53,080
Net Assets - Beginning, as restated					
					477,782
Net Assets - Ending					
					<u>\$ 251,627</u>

The accompanying notes are an integral part of this statement.

DREW SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2010

	General Fund	Title I ARRA Fund
	<u> </u>	<u> </u>
Assets:		
<i>Cash and cash equivalents</i>	\$ 185,777	\$ 23,615
<i>Investments</i>	--	--
<i>Due from other governments</i>	22,933	40,536
<i>Due from other funds</i>	109,567	--
<i>Advances to other funds</i>	2,000	--
<i>Inventories</i>	--	--
Total Assets	<u>\$ 320,277</u>	<u>\$ 64,151</u>
 Liabilities and Fund Balances		
Liabilities:		
<i>Accounts payable and accrued liabilities</i>	\$ 223,474	\$ 25,331
<i>Due to other funds</i>	149	38,820
<i>Other payables</i>	75,000	--
Total Liabilities	<u>298,623</u>	<u>64,151</u>
 Fund balances:		
Reserved for:		
<i>Inventory</i>	--	--
<i>Unemployment benefits</i>	--	--
<i>Debt service funds</i>	--	--
<i>Permanent funds</i>	--	--
Unreserved:		
<i>Undesignated, reported in:</i>		
<i>General fund</i>	21,654	--
<i>Special Revenue funds</i>	--	--
Total Fund Balances	<u>21,654</u>	<u>--</u>
Total Liabilities and Fund Balances	<u>\$ 320,277</u>	<u>\$ 64,151</u>

The accompanying notes are an integral part of this statement.

Twenty First Century Grant Fund	MAEP Bond Fund	Other Governmental Funds	Total Governmental Funds
\$ --	\$ --	\$ 165,903	\$ 375,295
--	32,137	29,864	62,001
60,933	58,712	49,538	232,652
--	--	--	109,567
--	--	--	2,000
--	--	11,932	11,932
<u>\$ 60,933</u>	<u>\$ 90,849</u>	<u>\$ 257,237</u>	<u>\$ 793,447</u>
\$ 12,007	\$ --	\$ 43,876	\$ 304,688
48,926	--	21,821	109,716
--	--	--	75,000
<u>60,933</u>	<u>--</u>	<u>65,697</u>	<u>489,404</u>
--	--	11,932	11,932
--	--	17,038	17,038
--	90,849	--	90,849
--	--	29,864	29,864
--	--	--	21,654
--	--	132,706	132,706
--	90,849	191,540	304,043
<u>\$ 60,933</u>	<u>\$ 90,849</u>	<u>\$ 257,237</u>	<u>\$ 793,447</u>

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DREW SCHOOL DISTRICT

*RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010*

Total Fund Balances - Governmental Funds	\$ 304,043
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not reported in the funds.	953,875
Liabilities due in one year.	(146,488)
Payables for bond principal which are not due in the current period are not reported in the funds.	(670,000)
Payables for bond interest which are not due in the current period are not reported in the funds.	(22,071)
Payables for notes which are not due in the current period are not reported in the funds.	(143,012)
Payables for compensated absences not due in the current period are not reported in the funds.	<u>(24,720)</u>
Total Net Assets - Governmental Activities	<u>\$ 251,627</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, 2010

	General Fund	Title I ARRA Fund
Revenues:		
Local sources	\$ 707,039	\$ --
State sources	2,648,361	--
Federal sources	36,443	265,266
Sixteenth section sources	--	--
Total Revenues	<u>3,391,843</u>	<u>265,266</u>
Expenditures:		
Instruction	1,969,555	91,895
Support services	1,739,904	160,175
Noninstructional services	2,970	3,196
Sixteenth section	--	--
Debt service:		
Principal	--	--
Interest	--	--
Other	--	--
Total Expenditures	<u>3,712,429</u>	<u>255,266</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(320,586)	10,000
Other Financing Sources (Uses):		
Proceeds of loans	209,500	--
Transfers in	279,187	--
Transfers out	(18,609)	(10,000)
Total Other Financing Sources (Uses)	<u>470,078</u>	<u>(10,000)</u>
Special items	(112,712)	--
Net change in fund balance	36,780	--
Fund Balances:		
July 1, 2009, as originally reported	(67,577)	--
Prior period adjustments	52,451	--
July 1, 2009 as restated	<u>(15,126)</u>	<u>--</u>
Increase (decrease) in reserve for inventory	--	--
June 30, 2010	<u>\$ 21,654</u>	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

Twenty First Century Grant Fund	MAEP Bond Fund	Other Governmental Funds	Total Governmental Funds
\$ --	\$ 4	\$ 24,413	\$ 731,456
--	117,424	57,145	2,822,930
170,543	--	1,399,137	1,871,389
--	--	138,316	138,316
<u>170,543</u>	<u>117,428</u>	<u>1,619,011</u>	<u>5,564,091</u>
135,086	--	580,436	2,776,972
24,577	--	435,718	2,360,374
68	--	425,224	431,458
--	--	1,500	1,500
--	75,000	--	75,000
--	39,200	--	39,200
--	550	--	550
<u>159,731</u>	<u>114,750</u>	<u>1,442,878</u>	<u>5,685,054</u>
10,812	2,678	176,133	(120,963)
--	--	--	209,500
--	--	18,610	297,797
(10,812)	--	(258,376)	(297,797)
<u>(10,812)</u>	<u>--</u>	<u>(239,766)</u>	<u>209,500</u>
--	--	--	(112,712)
--	2,678	(63,633)	(24,175)
--	88,171	250,828	271,422
--	--	629	53,080
<u>--</u>	<u>88,171</u>	<u>251,457</u>	<u>324,502</u>
--	--	3,716	3,716
<u>\$ --</u>	<u>\$ 90,849</u>	<u>\$ 191,540</u>	<u>\$ 304,043</u>

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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, 2010*

Net Change in Fund Balances - Governmental Funds	\$ (24,175)
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	48,965
The depreciation of capital assets used in governmental activities is not reported in the funds.	(62,031)
Trade-in or disposal of capital assets decrease net assets in the SOA but not in the funds.	(46,462)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	75,000
(Increase) decrease in accrued interest from beginning of period to end of period.	(9,004)
Change in inventory affects fund balance in the funds but affects expense in SOA.	3,716
Compensated absences are reported as amount earned in SOA but as amount paid in the funds.	(2,664)
Proceeds of notes do not provide revenue in the SOA, but are reported as current resources in the funds.	<u>(209,500)</u>
Change in Net Assets of Governmental Activities	<u>\$ (226,155)</u>

The accompanying notes are an integral part of this statement.

DREW SCHOOL DISTRICT

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

FIDUCIARY FUNDS

JUNE 30, 2010

	Agency Funds
Assets:	
<i>Cash and other deposits</i>	\$ 7,528
<i>Due from other funds</i>	149
Total Assets	\$ 7,677
Liabilities:	
<i>Claims payable</i>	\$ 76
<i>Due to student clubs</i>	5,601
<i>Advances from other funds</i>	2,000
Total Liabilities	\$ 7,677

The accompanying notes are an integral part of this statement.

Drew School District

Notes to the Financial Statements
June 30, 2010

Drew School District

Notes to the Financial Statements
For the Year Ended June 30, 2010

(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 improvement of those assets.

Drew School District

Notes to the Financial Statements For the Year Ended June 30, 2010

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.

Title I ARRA Fund - This is a special revenue fund that accounts for federal funds received under the American Recovery and Reinvestment Act (ARRA), which provides additional funding for programs under Title I Part A to assist in the instruction of students from families that live in poverty.

Twenty First Century Grant Fund - This fund is intended to help students meet state and local standards in core academic subjects, such as reading and math; offers students a broad array of enrichment activities that should complement their regular academic programs; and offers literacy and other educational services to the families of participating children.

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

Drew School District

Notes to the Financial Statements For the Year Ended June 30, 2010

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:

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,

Drew School District

Notes to the Financial Statements For the Year Ended June 30, 2010

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 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 taxes, 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*, 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.

Drew School District

Notes to the Financial Statements For the Year Ended June 30, 2010

E. Encumbrances

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

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.

Drew School District

Notes to the Financial Statements For the Year Ended June 30, 2010

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.

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 include land, improvements to land, easements, water rights, timber rights, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Capital assets are reported in the applicable governmental or business type 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 table below.

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.

Drew School District

Notes to the Financial Statements For the Year Ended June 30, 2010

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

The following schedule details the capitalization thresholds:

		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 a long-term liability 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 liability for compensated absences from expendable available financial resources only if the payable has matured, for example, an employee retires.

8. Long-term Liabilities, Deferred Debt Expense, 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, 2010

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 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 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

Drew School District

Notes to the Financial Statements For the Year Ended June 30, 2010

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, not to exceed fifty percent of all monies invested with maturities of thirty days or longer; (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 other interests in, any 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, not to exceed twenty percent of invested excess funds. 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. Investment income of 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 \$375,295 and \$7,528, respectively. The carrying amount of deposits reported in government-wide statements was \$375,295. The bank balance was \$627,164.

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, 2010, none of the district's bank balance of \$627,164 was exposed to custodial credit risk.

Investments

As of June 30, 2010, the district had the following investments.

<u>Investment Type</u>	<u>Maturities (in years)</u>	<u>Fair Value</u>	<u>Rating</u>
Money Market Fund	Not applicable	\$ 32,137	A
Money Market Fund	Not applicable	29,864	
Total Investments		<u>\$ 62,001</u>	

Drew School District

Notes to the Financial Statements
For the Year Ended June 30, 2010

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, 2010, the district had the following investments:

<u>Issuer</u>	<u>Fair Value</u>	<u>% of Total Investments</u>
Hancock Horizon Treasury Securities Money Securities Money Market Class A	\$ 32,137	52%
Hancock Horizon Treasury Securities Money Securities Money Market Class A	<u>29,864</u>	48%
	\$ 62,001	

(3) Interfund Receivables, Payables, and Transfers

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	ARRA Title I Fund	\$ 38,820
	Twenty First Century Grant Fund	48,926
	Other Governmental Funds	21,821
Fiduciary Funds	General Fund	<u>149</u>
Total		\$ <u><u>109,716</u></u>

The purpose of the Due From/To other funds balances was to cover deficit cash balances.

Drew School District

Notes to the Financial Statements
For the Year Ended June 30, 2010

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	ARRA Title I Fund	\$ 10,000
	Twenty First Century Grant Fund	10,812
	Other Governmental Funds	258,376
Other Governmental Funds	General Fund	<u>18,609</u>
Total		\$ <u><u>297,797</u></u>

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

(4) Restricted Assets

The restricted assets represent the investment balance, totaling \$62,001, respectively of the MAEP Limited Obligation Bond Fund.

(5) Capital Assets

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

	<u>Balance 7-1-2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6-30-2010</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>36,500</u>
<u>Depreciable capital assets:</u>				
Buildings	1,805,997			1,805,997
Mobile equipment	369,747	13,270	108,774	274,243
Furniture and equipment	299,573	35,695	55,249	280,019
Total depreciable capital assets	<u>2,475,317</u>	<u>48,965</u>	<u>164,023</u>	<u>2,360,259</u>
<u>Less accumulated depreciation for :</u>				
Buildings	990,111	26,797		1,016,908

Drew School District

Notes to the Financial Statements
For the Year Ended June 30, 2010

Mobile equipment	242,109	6,840	58,533	190,416
Furniture and equipment	266,194	28,394	59,028	235,560
Total accumulated depreciation	<u>1,498,414</u>	<u>62,031</u>	<u>117,561</u>	<u>1,442,884</u>
Total depreciable capital assets, net	<u>976,903</u>	<u>(13,066)</u>	<u>46,462</u>	<u>917,375</u>
Governmental activities capital assets, net	\$ <u>1,013,403</u>	<u>(13,066)</u>	<u>46,462</u>	<u>953,875</u>

Depreciation expense was charged to the following governmental functions:

Instructional	\$ 43,422
Support Services	12,406
Non-instructional	<u>6,203</u>
Total	<u>\$ 62,031</u>

(6) Long-term liabilities

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

		Balance 7-1-2009	Additions	Reductions	Balance 6-30-2010	Amounts due within one year
A. Limited obligation bonds payable	\$	825,000		75,000	750,000	80,000
B. Shortfall notes payable			209,500		209,500	66,488
C. Compensated absences payable		<u>22,056</u>	<u>2,664</u>		<u>24,720</u>	
Total	\$	<u>847,056</u>	<u>212,164</u>	<u>75,000</u>	<u>984,220</u>	<u>146,488</u>

A. Limited obligations bonds payable

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:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State Aid Capital Improvement	4.8%	03-17-1998	03-17-2018	\$ <u>1,335,000</u>	<u>750,000</u>
Total				\$ <u>1,335,000</u>	<u>750,000</u>

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

Drew School District

Notes to the Financial Statements
For the Year Ended June 30, 2010

Year Ending June 30		Principal	Interest	Total
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		95,000	17,400	112,400
2016-2018		<u>315,000</u>	<u>50,400</u>	<u>365,400</u>
Total	\$	<u>750,000</u>	<u>187,534</u>	<u>937,534</u>

This debt will be retired from the MAEP Debt Retirement Fund.

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.

B. Shortfall notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Shortfall notes payable	4.95%	6-24-2010	6-24-2013	\$ <u>209,500</u>	<u>209,500</u>
Total				\$ <u>209,500</u>	<u>209,500</u>

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

Year Ending June 30		Principal	Interest	Total
2011	\$	66,488	10,370	76,858
2012		69,779	7,089	76,868
2013		<u>73,233</u>	<u>3,620</u>	<u>76,853</u>
Total	\$	<u>209,500</u>	<u>21,079</u>	<u>230,579</u>

This debt will be retired from the District Maintenance Fund.

Drew School District

Notes to the Financial Statements
For the Year Ended June 30, 2010

C. 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 supplemental 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, 2010 was 12.00% 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, 2010, 2009 and 2008 were \$360,829, \$362,712, and \$374,673, 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
2011	\$ 12,400
2012	12,400
2013	12,400
Total	\$ 37,200

Drew School District

Notes to the Financial Statements
For the Year Ended June 30, 2010

(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 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) Short -Term Financing

During the fiscal year ended June 30, 2010, 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 payment consisting of principal and interest to the trustee.

Drew School District

Notes to the Financial Statements
For the Year Ended June 30, 2010

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 2010 are as follows:

		Balance 7-1-2009	Additions	Reductions	Balance 6-30-2010
Revenue anticipation note payable	\$	75,000			75,000
Total	\$	75,000	0	0	75,000

(12) **Prior Period Adjustments**

A summary of significant fund equity adjustments are as follows:

Exhibit B - Statement of Activities

<u>Explanation(s)</u>	<u>Amount</u>
1 Entry made to correct Due/To from other funds.	\$ 655
2 Entry made to correct Worker's Compensation Fund.	51,796
3 Entry made to correct an entry that had been made by the client in the wrong year.	629
Total	\$ 53,080

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

<u>Explanation(s)</u>	<u>Amount</u>
1 Entry made to correct Due/To from other funds.	\$ 655
2 Entry made to correct Worker's Compensation Fund.	51,796
3 Entry made to correct an entry that had been made by the client in the wrong year.	629
Total	\$ 53,080

(13) **Special Item**

An amount of \$112,712, was treated as a Special Item outflow due to a breach in a preceding superintendent's contract. Dr. Eerleine Carter, the preceding superintendent, had a three year contract. She was terminated before the end, and the District had to pay her the remaining amount of \$112,712, which was for the last year of her contract.

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REQUIRED SUPPLEMENTAL INFORMATION

DREW SCHOOL DISTRICT
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2010

Exhibit 1

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 951,972	916,538	707,039	(35,434)	(209,499)
State sources	3,099,112	2,648,363	2,648,361	(450,749)	(2)
Federal sources	35,000	36,443	36,443	1,443	0
Total Revenues	<u>4,086,084</u>	<u>3,601,344</u>	<u>3,391,843</u>	<u>(484,740)</u>	<u>(209,501)</u>
Expenditures:					
Instruction	2,181,809	2,042,708	1,969,555	139,101	73,153
Support services	1,773,040	1,739,903	1,739,904	33,137	(1)
Noninstructional services	18,630	2,970	2,970	15,660	0
Total Expenditures	<u>3,973,478</u>	<u>3,785,581</u>	<u>3,712,429</u>	<u>187,897</u>	<u>73,152</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>112,605</u>	<u>(184,237)</u>	<u>(320,586)</u>	<u>(296,842)</u>	<u>(136,349)</u>
Other Financing Sources (Uses):					
Proceeds of Loans			209,500	0	209,500
Transfers In	743,247	704,213	279,187	(39,034)	(425,026)
Transfers Out	(610,303)	(443,574)	(18,609)	166,729	424,965
Total Other Financing Sources (Uses)	<u>132,944</u>	<u>260,639</u>	<u>470,078</u>	<u>127,695</u>	<u>209,439</u>
Special items		(112,712)	(112,712)	(112,712)	0
Net Change in Fund Balances	<u>245,549</u>	<u>(36,310)</u>	<u>36,780</u>	<u>(281,859)</u>	<u>73,090</u>
Fund Balances:					
July 1, 2009		5,575	(67,577)	5,575	(73,152)
Prior period adjustments		52,451	52,451	52,451	0
July 1, 2009, as restated	<u>0</u>	<u>58,026</u>	<u>(15,126)</u>	<u>58,026</u>	<u>(73,152)</u>
June 30, 2010	<u>\$ 245,549</u>	<u>21,716</u>	<u>21,654</u>	<u>(223,833)</u>	<u>(62)</u>

The notes to the required supplemental information are an integral part of this schedule.

DREW SCHOOL DISTRICT
 Budgetary Comparison Schedule
 Title I ARRA Fund
 For the Year Ended June 30, 2010

Exhibit 2

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 657,926	265,266	265,266	(392,660)	0
Total Revenues	<u>657,926</u>	<u>265,266</u>	<u>265,266</u>	<u>(392,660)</u>	<u>0</u>
Expenditures:					
Instruction	210,010	91,895	91,895	118,115	0
Support services	318,563	160,175	160,175	158,388	0
Noninstructional services	91,456	3,196	3,196	88,260	0
Total Expenditures	<u>620,029</u>	<u>255,266</u>	<u>255,266</u>	<u>364,763</u>	<u>0</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>37,897</u>	<u>10,000</u>	<u>10,000</u>	<u>(27,897)</u>	<u>0</u>
Other Financing Sources (Uses):					
Transfers out	(37,897)	(10,000)	(10,000)	27,897	0
Total Other Financing Sources (Uses)	<u>(37,897)</u>	<u>(10,000)</u>	<u>(10,000)</u>	<u>27,897</u>	<u>0</u>
Net Change in Fund Balances	<u>0</u>	<u>(0)</u>	<u>0</u>	<u>(0)</u>	<u>(0)</u>
Fund Balances:					
July 1, 2009				0	0
June 30, 2010	<u>\$ 0</u>	<u>(0)</u>	<u>0</u>	<u>(0)</u>	<u>0</u>

The notes to the required supplemental information are an integral part of this schedule.

DREW SCHOOL DISTRICT
 Budgetary Comparison Schedule
 Twenty First Century Grant Fund
 For the Year Ended June 30, 2010

Exhibit 3

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$	170,543	170,543	170,543	0
Total Revenues	0	170,543	170,543	170,543	0
Expenditures:					
Instruction		135,086	135,086	(135,086)	0
Support services		24,577	24,577	(24,577)	0
Noninstructional services		68	68	(68)	0
Total Expenditures	0	159,731	159,731	(159,731)	0
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	10,812	10,812	10,812	0
Other Financing Sources (Uses):					
Transfers out		(10,812)	(10,812)	(10,812)	0
Total Other Financing Sources (Uses)	0	(10,812)	(10,812)	(10,812)	0
Net Change in Fund Balances	0	0	0	0	0
Fund Balances:					
July 1, 2009				0	0
June 30, 2010	\$	0	0	0	0

The notes to the required supplemental information are an integral part of this schedule.

NOTES TO THE REQUIRED SUPPLEMENTAL INFORMATION

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Drew School District

Notes to the Required Supplemental Information
For the Year Ended June 30, 2010

Budgetary Comparison Schedules

(1) Basis of Presentation

The Budgetary Comparison Schedules present the original legally adopted budget, the final legally adopted budget, the actual data on the GAAP basis, variances between the original budget and the final budget, and variances between the final budget and the actual data.

(2) Budget Amendments and Revisions

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

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SUPPLEMENTAL INFORMATION

DREW SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

Federal Grantor/ Pass-through Grantor/ Program Title/	Catalog of Federal Domestic Assistance No.	Federal Expenditures
<u>U. S. Department of Agriculture</u>		
Passed-through the Mississippi Department of Education:		
Child Nutrition Cluster:		
School Breakfast Program	10.553	\$128,845
National School Lunch Program	10.555	265,127
Total Child Nutrition cluster		393,972
Total passed-through the MDE		393,972
Total U.S. Department of Agriculture		393,972
 <u>Federal Communications Commission</u>		
Administered through Universal Service Administrative Company:		
Communications Information and Assistance and Investigation of Complaints	32.001	36,149
Total Federal Communications Commission		36,149
 <u>U. S. Department of Education</u>		
Passed-through the Mississippi Department of Education:		
Title I Cluster:		
Title I Grants to Local Educational Agencies	84.010	550,108
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	265,266
Total Title I Cluster		815,374
Safe and Drug - Free Schools and Communities - State Grants	84.186	6,826
Twenty First Century Grant	84.287	170,543
Title II Educational Technology	84.318	1,737
Rural Education	84.358	1,267
Improving Teacher Quality State Grants	84.367	50,002
ARRA - State Fiscal Stabilization Fund - Education State Grants, Recovery Act	84.394	220,100
Subtotal		450,475
Special Education Cluster:		
Special Education - Grants to States	84.027	115,967
Special Education - Preschool Grants	84.173	1,453
ARRA - Special Education Grants to States, Recovery Act	84.391	34,090
ARRA - Special Education Preschool Grants, Recovery Act	84.392	180
Total Special Education Cluster		151,690
Total passed-through the MDE		1,417,539
Total U.S. Department of Education		1,417,539
Total for All Federal Awards		\$1,847,660

NOTES TO SCHEDULE

1. This schedule was prepared using the same basis of accounting and significant accounting policies, 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, 2010

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 3,699,771	2,405,964	346,522	335,850	611,435
Other	1,985,283	449,255	251,793	12,604	1,271,631
Total	\$ 5,685,054	2,855,219	598,315	348,454	1,883,066
Total number of students *	540				
Cost per student	\$ 10,527	5,287	1,108	645	3,487

NOTES TO SCHEDULE

1. 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.
2. General Administration - includes expenditures for the following functions: Support Services - General Administration; Support Services - Business.
3. School Administration - includes expenditures for the following functions: Support Services - School Administration.
4. Other - includes all expenditure functions not included in Instruction or Administration categories.

* Total number of students- the ADA report submission for month 9, which is the final submission for the school year.

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OTHER SUPPLEMENTAL INFORMATION

DREW SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

"UNAUDITED"

General Fund

Last Four Years

	2010	2009*	2008*	2007*
Revenues:				
Local sources	\$ 707,039	887,986	856,318	864,598
State sources	2,648,361	2,879,326	3,118,340	2,858,525
Federal sources	36,443	28,768	40	35,599
Total Revenues	<u>3,391,843</u>	<u>3,796,080</u>	<u>3,974,698</u>	<u>3,758,722</u>
Expenditures:				
Instruction	1,969,555	2,271,278	2,231,438	2,268,421
Support services	1,739,904	1,919,139	1,901,324	1,666,573
Noninstructional services	2,970	18,944	982	13,806
Debt service:				
Other		76,215		
Total Expenditures	<u>3,712,429</u>	<u>4,285,576</u>	<u>4,133,744</u>	<u>3,948,800</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>(320,586)</u>	<u>(489,496)</u>	<u>(159,046)</u>	<u>(190,078)</u>
Other Financing Sources (Uses):				
Proceeds of loans	209,500			
Operating transfers in	279,187	299,689	148,337	142,083
Operating transfers out	(18,609)	(174,123)	(97,622)	(63,230)
Total Other Financing Sources (Uses)	<u>470,078</u>	<u>125,566</u>	<u>50,715</u>	<u>78,853</u>
Special items	(112,712)			
Net Change in Fund Balances	<u>36,780</u>	<u>(363,930)</u>	<u>(108,331)</u>	<u>(111,225)</u>
Fund Balances:				
July 1,	(67,577)	296,353	404,684	475,909
Prior Period Adjustments	52,451			40,000
July 1, as restated	<u>(15,126)</u>	296,353	404,684	515,909
June 30,	<u>\$ 21,654</u>	<u>(67,577)</u>	<u>296,353</u>	<u>404,684</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

	2010	2009*	2008*	2007*
Revenues:				
Local sources	\$ 731,456	917,190	885,388	896,449
State sources	2,822,930	3,072,071	3,298,229	3,042,122
Federal sources	1,871,389	1,177,040	1,492,811	1,688,804
Sixteenth section sources	138,316	129,827	126,713	120,941
Total Revenues	<u>5,564,091</u>	<u>5,296,128</u>	<u>5,803,141</u>	<u>5,748,316</u>
Expenditures:				
Instruction	2,776,972	2,612,280	2,878,809	2,959,810
Support services	2,360,374	2,373,785	2,490,860	2,343,000
Noninstructional services	431,458	480,748	396,386	435,878
Sixteenth section	1,500		165	
Debt service:				
Principal	75,000	70,000	70,000	65,000
Interest	39,200	42,420	46,646	49,695
Other	550	78,340		
Total Expenditures	<u>5,685,054</u>	<u>5,657,573</u>	<u>5,882,866</u>	<u>5,853,383</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>(120,963)</u>	<u>(361,445)</u>	<u>(79,725)</u>	<u>(105,067)</u>
Other Financing Sources (Uses):				
Proceeds of loans	209,500			
Operating transfers in	297,797	473,812	245,958	205,312
Operating transfers out	(297,797)	(473,812)	(245,958)	(205,312)
Total Other Financing Sources (Uses)	<u>209,500</u>	<u>0</u>	<u>0</u>	<u>0</u>
Special items	<u>(112,712)</u>			
Net Change in Fund Balances	<u>(24,175)</u>	<u>(361,445)</u>	<u>(79,725)</u>	<u>(105,067)</u>
Fund Balances:				
July 1,	271,422	635,234	715,485	789,212
Prior Period Adjustments	53,080			40,000
July 1, as restated	<u>324,502</u>	<u>635,234</u>	<u>715,485</u>	<u>829,212</u>
Increase (Decrease) in reserve for inventory	3,716	(2,367)	(526)	(8,660)
June 30,	<u>\$ 304,043</u>	<u>271,422</u>	<u>635,234</u>	<u>715,485</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

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REPORTS ON INTERNAL CONTROL AND COMPLIANCE

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, 2010, which collectively comprise the Drew School District's basic financial statements and have issued our report thereon dated November 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.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be a significant deficiency in internal control over financial reporting. [Finding **2010-1**]. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

AICPA & MSCPA

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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 no instances of noncompliance or other matter that are required to be reported under *Government Auditing Standards*.

However, we noted certain immaterial instances of noncompliance or other matters that we reported to management of the school district in a separate letter dated November 8, 2010, which is included in this report.

Drew School District's response to the finding identified in our audit is described in the accompanying Auditee's Corrective Action Plan. We did not audit Drew School District's response 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.

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
November 8, 2010

Certified Public Accountants

FORTENBERRY & BALLARD, PC
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON 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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The Drew 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 our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the school district's compliance with those requirements.

In our opinion, the Drew School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

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 Drew 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, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

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A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC
November 8, 2010

Certified Public Accountants

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

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, 2010, which collectively comprise Drew School District's basic financial statements and have issued our report thereon dated November 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 \$6,391 of classroom supply funds carried over from previous years.

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

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

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

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

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Finding 1:

Section 37-61-33(3)(a)(iii) 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.

Finding 2:

Section 37-9-31, Mississippi Code Ann.(1972) states that different principals should be bonded for no less than \$50,000. We found one principal who was bonded for less than \$50,000.

Recommendation:

The school district should comply with Section 37-9-31, Mississippi Code Annotated (1972).

Response:

The school district accepts the recommendation of the auditor.

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

The Drew School District's responses to the findings included in this report were not audited 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.

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
November 8, 2010

Certified Public Accountants

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Drew School District

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

Section I: Summary of Auditor's Results

Financial Statements:

1. Type of auditor's report issued on the financial statements: Unqualified.
2. Noncompliance material relating to the financial statements noted? No.
3. Internal control over financial reporting:
 - a. Material weakness(es) identified? No.
 - 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? None reported.
6. Any audit findings reported as required by Section 510(a) of OMB Circular A-133? No.
7. Federal programs identified as major programs:
 - a. Title I Cluster:
CFDA# 84.010
CFDA# 84.389
 - b. SPED Cluster:
CFDA# 84.027
CFDA# 84.173
CFDA# 84.391
CFDA# 84.392
 - c. ARRA State Stabilization Fund
CFDA# 84.394
8. Dollar threshold used to distinguish between Type A and Type B programs: \$300,000.
9. Auditee qualified as a low-risk auditee? Yes.

Section II: Financial Statement Findings

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

Significant Deficiency:

Finding 2010-1:

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 III: 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.

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AUDITEE'S CORRECTIVE ACTION PLAN

Drew School District
286 West Park Avenue
Drew, MS 38737
Mr. Charles Barron - Interim Superintendent
Margie Bowen - Interim 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, 2010:

Finding
2010-1

Corrective Action Plan Details

a. Name of Contact Person Responsible for Corrective Action

Name: Margie Bowman
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:

6/30/2011