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LOUISVILLE MUNICIPAL SCHOOL DISTRICT

**Audited Financial Statements
For the Year Ended June 30, 2010**

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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LOUISVILLE MUNICIPAL SCHOOL DISTRICT

FINANCIAL AUDIT REPORT



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

Superintendent and School Board
Louisville Municipal School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Louisville Municipal School District as of and for the year ended June 30, 2010, which collectively comprise the Louisville Municipal School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Louisville Municipal School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Louisville Municipal School District, as of June 30, 2010, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2011, on our consideration of the Louisville Municipal School District's internal control over financial reporting and on 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 collectively comprise the Louisville Municipal School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. In addition, the Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds is

presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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.

Watkins, Ward and Stafford, PLLC
Louisville, Mississippi

January 31, 2011

Watkins, Ward and Stafford, PLLC

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The discussion and analysis of Louisville Municipal School District's financial performance provides an overall narrative review of the Louisville Municipal 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.

The Louisville Municipal School District consists of the following schools: Fair Elementary School (K-2), Louisville Elementary School (4-5), Eiland Middle School (6-8), Louisville High School (9-12), Nanih Waiya Attendance Center (K-12), Noxapater Attendance Center K-12), and the Winston-Louisville Career & Technical Center. At the end of the 2010 school year the district's enrollment was 2,689 up by 154 students from 2,535 at the end of the 2009 school year.

Financial Highlights

- Total net assets for 2010 increased \$439,036 which represents a 3.0% increase from fiscal year 2009. The primary reason for the increase is due to increased ad valorem taxes during the fiscal year along with the district practice of maintaining very controlled spending practices and carefully reviewing and using all resources in a cost effective manner.
- General revenues amounted to \$17,235,354 and \$18,772,800, or 70.4% and 76.4% 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 \$7,252,491 or 29.6% of total revenues for 2010, and \$5,795,893 or 23.6% of total revenues for 2009.
- The District had \$24,048,809 and \$23,826,854 in expenses for fiscal years 2010 and 2009; only \$7,252,491 for 2010 and \$5,795,893 for 2009 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$17,235,354 for 2010 and \$18,772,800 for 2009 were adequate to provide for these programs.
- Among major funds, the General Fund had \$16,551,446 in revenues and \$16,167,154 in expenditures for 2010, and \$17,895,765 in revenues and \$17,551,116 in expenditures in 2009. The General Fund's fund balance decreased by \$99,440 from 2009 to 2010, and decreased by \$209,717 from 2008 to 2009.
- Capital assets, net of accumulated depreciation, increased by \$1,719,912 for 2010 and increased by \$1,462,221 for 2009. The increase for 2010 was due to additional construction and improvements made during the year.
- Long-term debt decreased by \$296,463 for 2010 and increased by \$3,277,537 for 2009. In addition, the liability for compensated absences increased by \$31,772 for 2010 and increased by \$14,446 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

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

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's balance sheet and in the governmental fund's statement of revenues, expenditures, and changes in fund balances for all major funds. All other non-major funds are combined and presented in these reports as other governmental funds.

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

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. A budgetary comparison schedule has been provided for the General Fund and each additional special revenue major 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 \$14,863,923 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 for the fiscal year ended June 30, 2010 and June 30, 2009

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

**Table 1
Condensed Statement of Net Assets**

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>Percentage Change</u>
Current assets	\$ 10,093,548	12,114,693	-16.7%
Restricted assets	226,359	216,821	4.4%
Capital assets, net	9,415,195	7,695,283	22.4%
Total Assets	<u>19,735,102</u>	<u>20,026,797</u>	<u>-1.5%</u>
Current liabilities	1,890,756	2,349,405	-19.5%
Long-term debt outstanding	2,980,423	3,252,505	-8.4%
Total Liabilities	<u>4,871,179</u>	<u>5,601,910</u>	<u>-13.0%</u>
Net Assets:			
Invested in capital assets, net of related debt	6,389,195	6,177,723	3.4%
Restricted	4,721,106	4,493,727	5.1%
Unrestricted	3,753,622	3,753,437	0.0%
Total Net Assets	<u>\$ 14,863,923</u>	<u>14,424,887</u>	<u>3.0%</u>

Changes in net assets. The District's total revenues for the fiscal years ended June 30, 2010 and June 30, 2009 were \$24,487,845 and \$24,568,693, respectively. The total cost of all programs and services was \$24,048,809 for 2010 and \$23,826,854 for 2009. Table 2 presents a summary of the changes in net assets for the fiscal years ended June 30, 2010 and June 30, 2009

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

Table 2
Change(s) in Net Assets

	<u>Year Ended</u> <u>June 30, 2010</u>	<u>Year Ended</u> <u>June 30, 2009</u>	<u>Percentage</u> <u>Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 1,003,260	\$ 989,475	1.4%
Operating grants and contributions	6,180,749	4,806,418	28.6%
Capital Grants and Contributions	68,482	0	N/A
General Revenues:			
Property taxes	5,080,057	4,587,298	10.7%
Grants and contributions not restricted	11,238,661	13,025,403	-13.7%
Investment earnings	451,636	505,509	-10.7%
Sixteenth section sources	438,987	573,558	-23.5%
Other	26,013	81,032	-67.9%
Total revenues	24,487,845	24,568,693	-0.3%
Expenses:			
Instruction	14,178,100	13,804,237	2.7%
Support services	7,924,569	8,099,562	-2.2%
Non-instructional	1,701,272	1,701,492	0.0%
Sixteenth section	131,756	92,521	42.4%
Interest and other expense on long-term liabilities	113,112	129,042	-12.3%
Total expenses	24,048,809	23,826,854	0.9%
Increase (Decrease) in net assets	439,036	741,839	-40.8%
Net Assets, July 1	14,424,887	13,683,048	5.4%
Net Assets, June 30	\$ 14,863,923	\$ 14,424,887	3.0%

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.

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

**Table 3
Net Cost of Governmental Activities**

	Total Expenses		Percentage Change
	2010	2009	
Instruction	\$ 14,178,100	13,804,237	2.7%
Support services	7,924,569	8,099,562	-2.2%
Non-instructional	1,701,272	1,701,492	0.0%
Sixteenth section	131,756	92,521	42.4%
Interest on long-term liabilities	113,112	129,042	-12.3%
Total expenses	\$ 24,048,809	23,826,854	0.9%

	Net (Expense) Revenue		Percentage Change
	2010	2009	
Instruction	\$ (10,434,027)	(10,891,309)	4.2%
Support services	(6,377,008)	(6,981,988)	8.7%
Non-instructional	130,399	(24,514)	631.9%
Sixteenth section	(2,570)	(4,108)	37.4%
Interest on long-term liabilities	(113,112)	(129,042)	12.3%
Total net (expense) revenue	\$ (16,796,318)	(18,030,961)	6.8%

- Net cost of governmental activities, \$16,796,318 and \$18,030,961 was financed by general revenue, which is made up of primarily property taxes of \$5,080,057 for 2010 and \$4,587,298 for 2009 and state and federal revenues of \$11,238,661 for 2010 and \$13,025,403 for 2009. In addition, there was \$438,987 and \$573,558 in Sixteenth Section sources for 2010 and 2009, respectively.
- Investment earnings amounted to \$451,636 for 2010 and \$505,509 for 2009.

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

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 \$8,835,915, a decrease of \$1,554,885, which includes the decrease in inventory of \$15,470. The primary reason for this decrease is due to the budget cuts in state revenue during the fiscal year. \$7,757,734 or 87.8% 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 \$1,078,181 or 12.2% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was \$99,440. The decrease is due to transfers from the General Fund to Other Governmental Funds to sustain those programs. The fund balance of Other Governmental Funds showed a decrease in the amount of \$1,582,472, which includes a decrease in reserve for inventory of \$15,470. The other increase (decrease) in the fund balances for the other major funds were as follows:

<u>Major Fund</u>	<u>Increase (Decrease)</u>
Title 1 Fund	None
16 th Section Interest Fund	\$ 127,027

BUDGETARY HIGHLIGHTS

During the year, the District revised the annual operating budget. Budget revisions were made to address and correct the original budgets to reflect more accurately the sources and uses of funding for the School District

A schedule showing the original and final budget amounts compared to the District's actual financial activity for the General Fund and major special revenue funds 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 \$17,430,222 including land, school buildings, building improvements, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$2,210,201 from 2009. Total accumulated depreciation as of June 30, 2010, was \$8,015,027, and total depreciation expense for the year was \$552,985, resulting in total net capital assets of \$9,415,195.

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

Table 4

Capital Assets

	<u>Capital Assets, Net of Depreciation</u>		Percentage
	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>Change</u>
Land	\$ 259,320	\$ 259,320	0.0%
Construction in Progress	-	1,242,151	-100.0%
Buildings	4,658,101	4,228,473	10.2%
Building improvements	2,213,715	222,751	893.8%
Improvements other than buildings	769,495	80,469	856.3%
Mobile equipment	1,296,222	1,440,292	-10.0%
Furniture and equipment	218,342	221,827	-1.6%
Total	\$ 9,415,195	7,695,283	22.4%

Debt Administration. At June 30, 2010, the District had \$3,284,277 in outstanding long-term debt, of which \$303,854 is due within one year.

Table 5

Outstanding Long-Term Debt

	<u>Outstanding Long-term Debt</u>		Percentage
	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>Change</u>
Three mill notes payable	3,026,000	3,300,000	-8.3%
Other loans payable	26,476	48,939	-45.9%
Compensated absences payable	231,801	200,029	15.9%
Total	\$ 3,284,277	\$ 3,548,968	-7.5%

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

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

CURRENT ISSUES

The Louisville Municipal School District is financially stable. As a consolidated school district, LMSD tries to maintain good working relationships with the City of Louisville and the Winston County governments. The district realizes the importance of all facets of the local government working together for the growth and improvement of the community.

The District has committed itself to financial excellence for many years. The millage has remained consistent through the years. For the fiscal year 1991-1992 the millage rate was 46 mills compared to the millage rate of 53.4 mills for the 2009-2010 school year, which includes 3 mills for the debt issued in the 2008-2009 school year. The district is also charged collection fees (5% of taxes collected by the City of Louisville and 5% of taxes collected by Winston County) by the levying authorities which is included in the millage rate (The millage rate assessed to cover collection fees was 2.4 mills for the 2009-2010 school year and is included in the 53.4 mills quoted above). The District is aware of Winston County's high unemployment rate and the difficult economic trials for the citizens of the city and the county and considers these factors in keeping the millage rate as low as possible while still maintaining excellence in the public schools.

Over the past decade the district had seen a trend of declining enrollment and ADA but it seems to be stabilizing. There was a slight increase in enrollment for 2010. However, because of the previous declining trend, budget cuts in both federal and state funding, and the continuing unstable economy, the district has been very conservative in staffing and in incurring additional expenditures. The district has completed various construction projects that were financed with a \$3,300,000 three mill notes payable acquired in 2008-2009. These improvements and renovations were considered very necessary and much needed to maintain the school buildings in an appropriate manner.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Louisville Municipal School District, P.O. Box 909, 112 South Columbus Avenue, Louisville, MS 39339.

FINANCIAL STATEMENTS

Louisville Municipal School District
Statement of Net Assets
June 30, 2010

Exhibit A

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 9,093,108
Due from other governments	921,320
Other receivables, net	43,426
Inventories	35,694
Restricted assets	226,359
Capital assets, not being depreciated:	
Land	259,320
Capital assets, net of accumulated depreciation:	
Buildings	4,658,101
Building improvements	2,213,715
Improvements other than buildings	769,495
Mobile equipment	1,296,222
Furniture and equipment	218,342
Total Assets	19,735,102
Liabilities	
Accounts payable and accrued liabilities	1,460,779
Unearned revenue	23,213
Interest payable on long-term liabilities	102,910
Long-term liabilities, due within one year	
Capital related liabilities	285,000
Non-capital related liabilities	18,854
Long-term liabilities, due beyond one year	
Capital related liabilities	2,741,000
Non-capital related liabilities	239,423
Total Liabilities	4,871,179
Net Assets	
Invested in capital assets, net of related debt	6,389,195
Restricted net assets:	
Expendable:	
School-based activities	3,990,470
Debt service	130,255
Forestry improvements	275,657
Unemployment benefits	98,365
Non-expendable:	
Sixteenth section	226,359
Unrestricted	3,753,622
Total Net Assets	\$ 14,863,923

The notes to the financial statements are an integral part of this statement.

Louisville Municipal School District
Statement of Activities
For the Year Ended June 30, 2010

Exhibit B

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Instruction	\$ 14,178,100	524,360	3,158,731	60,982	(10,434,027)
Support services	7,924,569	-	1,540,061	7,500	(6,377,008)
Non-instructional	1,701,272	349,714	1,481,957		130,399
Sixteenth section	131,756	129,186	-		(2,570)
Interest on long-term liabilities	113,112				(113,112)
Total Governmental Activities	\$ 24,048,809	1,003,260	6,180,749	68,482	(16,796,318)
General Revenues:					
Taxes:					
General purpose levies					4,773,673
Debt purpose levies					306,384
Unrestricted grants and contributions:					
State					11,008,651
Federal					230,010
Unrestricted investment earnings					451,636
Sixteenth section sources					438,987
Other					26,013
Total General Revenues					17,235,354
Change in Net Assets					439,036
Net Assets - Beginning					14,424,887
Net Assets - Ending					\$ 14,863,923

The notes to the financial statements are an integral part of this statement.

Louisville Municipal School District
Balance Sheet - Governmental Funds
June 30, 2010

Exhibit C

	Major Funds			Other	Total
	General	Title 1	Sixteenth	Governmental	Governmental
	Fund	Fund	Section	Funds	Funds
			Interest Fund		
ASSETS					
Cash and cash equivalents	\$ 4,326,464		3,657,858	1,335,145	9,319,467
Due from other governments	263,322	239,200		418,798	921,320
Other receivables, net			7,918		7,918
Due from other funds	490,630	293		37,133	528,056
Inventories and prepaid items				35,694	35,694
Total Assets	\$ 5,080,416	239,493	3,665,776	1,826,770	10,812,455
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	\$ 1,032,819	66,212	58,437	303,311	1,460,779
Due to other funds	35,698	173,281		283,569	492,548
Unearned revenue			5,838	17,377	23,213
Total Liabilities	1,068,517	239,493	64,273	604,257	1,976,540
Fund Balances:					
Reserved for:					
Inventory				35,694	35,694
Ad valorem	208,941				208,941
Debt service				233,165	233,165
Unemployment benefits				98,365	98,365
Forestry improvement purposes				275,657	275,657
Permanent fund purposes				226,359	226,359
Unreserved, undesignated, reported in:					
General Fund	3,802,958				3,802,958
Special Revenue Funds			3,601,503	353,273	3,954,776
Total Fund Balances	4,011,899		3,601,503	1,222,513	8,835,915
Total Liabilities and Fund Balances	\$ 5,080,416	239,493	3,665,776	1,826,770	10,812,455

The notes to the financial statements are an integral part of this statement.

Louisville Municipal School District
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2010

Exhibit C-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 8,835,915
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets are used in governmental activities and are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$ 8,015,027.	9,415,195
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(3,284,277)
3. Governmental funds recognize interest on long-term debt when it becomes due, however the Statement of Net Assets recognizes interest as it accrues.	(102,910)
Total Net Assets - Governmental Activities	\$ <u>14,863,923</u>

The notes to the financial statements are an integral part of this statement.

Louisville Municipal School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2010

Exhibit D

	Major Funds			Other	Total
	General	Title 1	Sixteenth	Governmental	Governmental
	Fund	Fund	Section	Funds	Funds
			Interest Fund		
Revenues:					
Local sources	\$ 5,548,978			697,248	6,246,226
State sources	10,681,195			1,200,777	11,881,972
Federal sources	321,273	1,099,042		4,185,605	5,605,920
Sixteenth section sources			657,096	96,631	753,727
Total Revenues	16,551,446	1,099,042	657,096	6,180,261	24,487,845
Expenditures:					
Instruction	10,071,209	654,528		3,196,470	13,922,207
Support services	6,039,199	358,652		1,368,912	7,764,763
Noninstructional services	10,906	62,493		1,569,978	1,643,377
Sixteenth section	23,377		30,069	78,209	131,655
Facilities acquisition and construction				2,146,365	2,146,365
Debt service:					
Principal	22,463			274,000	296,463
Interest				122,430	122,430
Other					-
Total Expenditures	16,167,154	1,075,673	30,069	8,754,364	26,027,260
Excess (Deficiency) of Revenues over Expenditures	384,292	23,369	627,027	(2,574,103)	(1,539,415)
Other Financing Sources (Uses):					
Proceeds of loans					-
Insurance loss recoveries					-
Operating transfers in	550,090			1,033,822	1,583,912
Operating transfers out	(1,033,822)	(23,369)	(500,000)	(26,721)	(1,583,912)
Total Other Financing Sources (Uses)	(483,732)	(23,369)	(500,000)	1,007,101	-
Net Change in Fund Balances	(99,440)	-	127,027	(1,567,002)	(1,539,415)
Fund Balances:					
July 1, 2009	4,111,339	-	3,474,476	2,804,985	10,390,800
Increase (Decrease) in reserve for inventory				(15,470)	(15,470)
June 30, 2010	\$ 4,011,899	-	3,601,503	1,222,513	8,835,915

The notes to the financial statements are an integral part of this statement.

Louisville Municipal School District
Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2010

Exhibit D-1

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ (1,539,415)
Amounts reported for governmental activities in the Statement of Activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchased amounted to \$2,285,200 and the depreciation expense amounted to \$ 552,985.	1,732,215
2. The repayment of the principal on long-term debt consumes current financial resources of governmental funds but has no effect the change in net assets.	296,463
3. Governmental funds recognize interest on long-term debt when it becomes due, however , the Statement of Activities recognizes interest as it accrues regardless of when it becomes due.	9,318
4. The sale and/or disposal of capital assets is reported as other financing sources in the governmental funds but is reported as a reduction of net capital assets on the Statement of Activities, along with any gain or loss.	(12,303)
5. A decrease in the inventory reserve is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are increased in the Statement of Activities.	(15,470)
6. Some expenditures reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:	
Compensated absences	(31,772)
Change in Net Assets of Governmental Activities	\$ <u><u>439,036</u></u>

The notes to the financial statements are an integral part of this statement.

Louisville Municipal School District
Statement of Fiduciary Net Assets
June 30, 2010

Exhibit E

	Private-Purpose Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 47,114	124,461
Investments	20,376	
Due from other funds		277
Total Assets	\$ 67,490	124,738
Liabilities		
Claims Payable	\$ 1,550	
Due to other funds		35,785
Due to student clubs		88,953
Total Liabilities	\$ 1,550	124,738
Net Assets		
Reserved for endowments	\$ 65,940	
Total Net Assets	\$ 65,940	

The notes to the financial statements are an integral part of this statement.

Louisville Municipal School District
Statement of Changes In Fiduciary Net Assets
For The Year Ended June 30, 2010

Exhibit F

	<u>Private-Purpose Trust Funds</u>
Additions	
Interest on investments	\$ 2,298
Contributions and donations from private sources	<u>3,350</u>
Total Additions	<u>5,648</u>
Deductions	
Scholarships awarded	<u>8,175</u>
Total Deductions	<u>8,175</u>
Change in Net Assets	<u>(2,527)</u>
Net Assets	
July 1, 2009	<u>68,467</u>
June 30, 2010	<u>\$ 65,940</u>

The notes to the financial statements are an integral part of this statement.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements For 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 a "primary government." The school district is governed by a five member board to which each member is elected by the citizens of each defined county district.

For financial reporting purposes, Louisville Municipal 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 inter-fund 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.
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.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

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 taxes and other items not 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 in 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 1 Fund - This special revenue fund accounts for resources received and expended by the district in administering the Title 1 Grants to local educational agencies passed through the Mississippi Department of Education.

16th Section Interest Fund - This special revenue fund accounts for the expendable revenues associated with earnings on sixteenth section lands.

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 school district also reports fiduciary funds which focus on net assets and changes in net assets.

The District's fiduciary funds include the following:

The payroll clearing fund and accounts payable clearing fund are agency funds used to process payroll and accounts payable functions. The student activity fund accounts for assets held on behalf of student clubs.

Various scholarship trust funds are held by the district and used to fund scholarships for award winners.

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

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

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

FIDUCIARY FUNDS

Private-purpose Trust Funds - Private-purpose trust funds are used to report all trust arrangements, other than those properly reported elsewhere, in which the principal and income benefit individuals, private organizations or other governments.

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

C. Measurement Focus and Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting, as are the Fiduciary Fund financial statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

Ad valorem property taxes are levied by the governing authorities of the county and 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 *Financial Accounting for Local and State School Systems, 2003*, issued by the U.S. Department of Education.

E. Encumbrances

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

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

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

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

Activities 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 inter-fund loans) or "advances to/from other funds" (i.e. the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as "due to/from other funds."

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

3. Due from Other Governments

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

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 16th Section Principal fund is not available for use by the district except as provided for under state statute for loans from this fund.

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

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

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.

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

The following schedule details the capitalization thresholds:

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

(*) The threshold amount will correspond with the amounts for the asset classifications, as listed. See Note 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 leave and/or vacation leave in accordance with school district policy. The district pays for unused leave for employees as required by Section 37-7-307(5), Miss. Code Ann. (1972).

The liability for these compensated absences is recorded as 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 cost, 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

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

premiums as other financing sources of the current period. Issuance costs are reported as expenditures. See Note 6 for details.

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 classified as designated and undesignated.

Fund reserves are portions of fund equity that are legally segregated for a specific future use or are not available for current operations. Following 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 ad valorem - An account used to record the ad valorem taxes collected in excess of legal limitations for the current fiscal year.

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 purpose other than that for which it is restricted.

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

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

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 the portion of fund balance that is expendable available financial resources.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

(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 district's deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

Investments. Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to invest excess 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 deposit or 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 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 with financial institutions reported in the governmental funds and fiduciary funds was \$9,319,467 and \$191,951, (which includes \$ 20,376 of certificates of deposit with original maturities beyond three months and reported on Exhibit E as investments) respectively. The bank balance was \$10,389,696.

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 institution's 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 \$10,389,696 was exposed to custodial credit risk.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

Investments

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

Investment Type	Rating	Maturities (In years)	Fair Value
Certificates of deposit		less than 1	\$ 20,376
Total			\$ 20,376

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 investment 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. As of June 30, 2010, the district did not have any investments to which this would apply.

Concentration of Credit Risk. Disclosure 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:

Issuer	Fair Value	% of Total Investments
Certificates of Deposit - Citizen's Bank	\$ 15,200	75%
Certificate of Deposit - Regions Bank	\$ 5,176	25%

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

(3) Inter-fund Receivables, Payables and Transfers

The following is a summary of inter-fund transactions and balances:

A. Due From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Title 1 fund	\$ 173,072
	Other governmental funds	283,569
	Fiduciary funds	33,989
Title 1 fund	General Fund	293
Other governmental funds	General Fund	35,337
	Fiduciary funds	1,796
Fiduciary funds	General Fund	68
	Title 1 fund	209
Total		\$ <u>528,333</u>

The inter-fund payables resulted when reimbursable award programs on Title 1 and other governmental funds were loaned operating cash from the General Fund during the fiscal year. The inter-fund balances between the General Fund and fiduciary funds consist primarily of adjustments due to/from the payroll and accounts payable clearing funds.

B. Inter-fund Transfers

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amount</u>
General Fund	Other governmental funds	\$ 1,033,822
Title 1 fund	General Fund	23,369
16th Section Interest fund	General Fund	500,000
Other governmental funds	General Fund	26,721
Total		\$ <u>1,583,912</u>

The inter-fund transfers constitute general operating transfers and transfers of operating costs. The general operating transfers move resources between funds, while transfers of indirect costs provide resources for the General Fund in return for financing the indirect costs associated with certain federal award programs.

(4) Restricted Assets

The restricted assets represent the cash balance totaling \$226,359 of the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

(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>*Adjustments</u>	<u>Balance 6/30/2010</u>
Governmental Activities:					
<u>Non-depreciable capital assets:</u>					
Land	\$ 259,320				259,320
Construction in Progress	1,242,151	2,146,365		(3,388,516)	-
Total non-depreciable capital assets	<u>1,501,471</u>	<u>2,146,365</u>	<u>-</u>	<u>(3,388,516)</u>	<u>259,320</u>
<u>Depreciable capital assets:</u>					
Buildings	8,413,860			582,021	8,995,881
Building improvements	232,032			2,083,589	2,315,621
Improvements other than buildings	124,076			722,906	846,982
Mobile equipment	4,147,180	55,107			4,202,287
Furniture and equipment	801,402	83,728	(74,999)		810,131
Total depreciable capital assets	<u>13,718,550</u>	<u>138,835</u>	<u>(74,999)</u>	<u>3,388,516</u>	<u>17,170,902</u>
<u>Less accumulated depreciation for:</u>					
Buildings	4,185,387	152,393			4,337,780
Building improvements	9,281	92,625			101,906
Improvements other than buildings	43,607	33,880			77,487
Mobile equipment	2,706,888	198,197		980	2,906,065
Furniture and equipment	579,575	75,890	(62,696)	(980)	591,789
Total accumulated depreciation	<u>7,524,738</u>	<u>552,985</u>	<u>(62,696)</u>	<u>-</u>	<u>8,015,027</u>
Total depreciable capital assets, net	<u>6,193,812</u>	<u>(414,150)</u>	<u>(12,303)</u>	<u>3,388,516</u>	<u>9,155,875</u>
Governmental activities capital assets, net	<u>\$ 7,695,283</u>	<u>1,732,216</u>	<u>(12,303)</u>	<u>-</u>	<u>9,415,195</u>

* The amounts reported in the adjustments column represent reclassifications due to completed construction and a \$980 correction to the amounts reported in accumulated depreciation at the beginning of the fiscal year in the mobile equipment and furniture and equipment categories.

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Governmental activities:	
Instruction	\$ 296,978
Support services	217,810
Non-instructional	38,197
Total Depreciation Expense	<u>\$ 552,985</u>

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

(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	Adjustments	Balance 6/30/2010	Amounts due within one year
A. Limited obligation bonds payable	\$ 3,300,000		274,000		3,026,000	285,000
B. Other loans payable	48,939		22,463		26,476	18,854
C. Compensated absences payable	200,029	49,914	18,142		231,801	
Total	\$ 3,548,968	49,914	314,605	-	3,284,277	303,854

A. Limited obligation bonds payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
1. Limited Tax Note, Series 2008	3.71%	8/1/2008	8/1/2022	\$ 3,300,000	3,026,000
Total				\$ 3,300,000	3,026,000

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

1. Series 2008 Notes issued August 1, 2008:

Year Ending June 30	Principal	Interest	Total
2011	\$ 285,000	112,265	397,265
2012	295,000	101,691	396,691
2013	305,000	90,747	395,747
2014	318,000	79,431	397,431
2015	330,000	67,633	397,633
2016 – 2020	988,000	193,031	1,181,031
2021 – 2025	505,000	37,286	542,286
Total	\$ 3,026,000	682,084	3,708,084

This debt will be retired from the Debt Service – Series 2008 Fund.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

B. Other loans payable

The school district has issued debt instruments granted under the authority of Section 37-7-302, Miss. Code Ann. (1972).

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
1. EPA Asbestos Loan	N/A	4/17/1992	11/30/2010	\$ 129,900	3,608
2. EPA Asbestos Loan	N/A	4/17/1992	11/30/2011	274,425	22,868
Total				<u>\$ 404,325</u>	<u>26,476</u>

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

Year Ending June 30	Principal	Interest	Total
2011	\$ 18,854		18,854
2012	7,622		7,622
			-
Total	<u>\$ 26,476</u>	<u>-</u>	<u>26,476</u>

This debt will be retired from the District Maintenance Fund.

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.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

(7) Defined Benefit Pension Plan

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate for fiscal year ended June 30, 2010 was 12.00% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2010, 2009 and 2008 were \$1,568,907, \$1,533,462 and \$1,539,240, respectively, which equaled the required contributions for each year.

(8) Sixteenth Section Lands

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

<u>Year Ending June 30</u>	<u>Amount</u>
2011	\$ 46,503
2012	40,292
2013	31,027
2014	23,882
2015	22,858
2016 – 2020	86,953
2021 – 2025	68,274
2026 – 2030	58,917
2031 – 2035	29,155
2036 – 2040	1,763
Total	<u>\$ 407,624</u>

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

Notes to the Financial Statements For 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.

Litigation – The school district is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate the outcome or liability, if any, of the school district with respect to the various proceedings. However, the school district's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition 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 School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 63 school districts and covers risks of loss arising from injuries to the members' employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Wells Fargo in Portland, Oregon. The funds in the trust account are used to pay any claim up to \$750,000. For a claim exceeding \$750,000, MSBAWCT has insurance which will pay the excess to the statutory amount required by the Mississippi Workers' Compensation Commission Act. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. On September 30, 2005, some of the members were assessed an additional assessment depending upon their years of membership in the MSBAWCT. The balance of the additional assessment was paid in full at June 30, 2009.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

(11) Subsequent Events

Events that occur after the statement of net assets date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the statement of net assets date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the statement of net assets date require disclosure in the accompanying notes. Management of the Louisville Municipal School District evaluated the activity of the district through January 31, 2011 (the date the financial statements were available to be issued), and determined that the following subsequent events have occurred requiring disclosure in the notes to the financial statements:

1. On October 19, 2010 the board approved a quote from Central Access Systems in the amount of \$44,100 for a time keeping system.
2. On November 17, 2010 the board approved the lowest and best bid from Empire Truck Sales in the amount of \$87,348 for a new handicapped bus.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

REQUIRED SUPPLEMENTAL INFORMATION

Louisville Municipal School District
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2010

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 5,441,928	5,548,978	5,548,978	107,050	0
State sources	12,908,826	10,681,195	10,681,195	(2,227,631)	0
Federal sources	223,150	321,273	321,273	98,123	0
Total Revenues	18,573,904	16,551,446	16,551,446	(2,022,458)	0
Expenditures:					
Instruction	11,340,787	10,228,587	10,071,209	1,112,200	157,378
Support services	8,088,683	6,209,423	6,039,199	1,877,260	170,224
Noninstructional services	5,000	11,341	10,906	(6,341)	435
Sixteenth section	28,439	23,939	23,377	4,500	562
Debt service:					
Principal	22,464	22,464	22,463	0	1
Total Expenditures	19,483,373	16,495,754	16,167,154	2,987,619	328,600
Excess (Deficiency) of Revenues over Expenditures	(909,469)	55,692	384,292	965,161	328,600
Other Financing Sources (Uses):					
Operating transfers in	681,076	758,675	550,090	177,599	(208,585)
Operating transfers out	(735,565)	(1,242,407)	(1,033,822)	(508,842)	208,585
Total Other Financing Sources (Uses)	(154,489)	(483,732)	(483,732)	(329,243)	0
Net Change in Fund Balances	(1,063,958)	(428,040)	(99,440)	635,918	328,600
Fund Balances:					
July 1, 2009	3,865,453	4,111,339	4,111,339	245,886	0
June 30, 2010	\$ 2,801,495	3,683,299	4,011,899	881,804	328,600

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

Louisville Municipal School District
 Budgetary Comparison Schedule
 Title 1 Fund
 For the Year Ended June 30, 2010

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$	0	0	0	0
Federal sources	1,146,318	1,407,438	1,099,042	261,120	(308,396)
Total Revenues	1,146,318	1,407,438	1,099,042	261,120	(308,396)
Expenditures:					
Instruction	647,490	853,925	654,528	(206,435)	199,397
Support services	364,714	453,753	358,652	(89,039)	95,101
Noninstructional services	63,899	70,508	62,493	(6,609)	8,015
Total Expenditures	1,076,103	1,378,186	1,075,673	(302,083)	302,513
Excess (Deficiency) of Revenues over Expenditures	70,215	29,252	23,369	(40,963)	(5,883)
Other Financing Sources (Uses):					
Operating transfers out	(28,094)	(29,016)	(23,369)	(2,922)	5,647
Total Other Financing Sources (Uses)	(28,094)	(29,016)	(23,369)	(2,922)	5,647
Net Change in Fund Balances	44,121	236	0	(43,885)	(236)
Fund Balances:					
July 1, 2009	0	0	0	0	0
June 30, 2010	\$ 44,121	236	0	(43,885)	(236)

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

Louisville Municipal School District
 Budgetary Comparison Schedule
 Sixteenth Section Interest Fund
 For the Year Ended June 30, 2010

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Sixteenth section sources	\$ 470,200	656,944	657,096	186,744	152
Total Revenues	470,200	656,944	657,096	186,744	152
Expenditures:					
Sixteenth section	33,000	34,017	30,069	(1,017)	3,947
Total Expenditures	33,000	34,017	30,069	(1,017)	3,947
Excess (Deficiency) of Revenues over Expenditures	437,200	622,928	627,027	185,728	4,099
Other Financing Sources (Uses):					
Operating transfers out	(300,000)	(500,000)	(500,000)	(200,000)	0
Total Other Financing Sources (Uses)	(300,000)	(500,000)	(500,000)	(200,000)	0
Net Change in Fund Balances	137,200	122,928	127,027	(14,272)	4,099
Fund Balances:					
July 1, 2009	3,456,063	3,474,476	3,474,476	18,413	(0)
June 30, 2010	\$ 3,593,263	3,597,404	3,601,503	4,141	4,099

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

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

Budgetary Comparison Schedule

(1) Basis of Presentation

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

(2) Budget Amendments and Revisions

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

SUPPLEMENTAL INFORMATION

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards
For 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 Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	\$ 342,787
National school lunch program	10.555	942,460
Summer food service program for children	10.559	17,772
Total child nutrition cluster		1,303,019
Total passed-through Mississippi Department of Education		1,303,019
Passed-through Winston County:		
National forest - dependent rural communities	10.670	81,967
Total passed-through Winston County		81,967
Total U.S. Department of Agriculture		1,384,986
<u>U.S. Department of Defense</u>		
Direct Program:		
Reserve officer's training corps	12.XXX	49,692
Total U.S. Department of Defense		49,692
<u>U.S. Department of Interior</u>		
Direct Program:		
Payments in lieu of taxes	15.226	98,100
Total U.S. Department of Interior		98,100
<u>Appalachian Regional Commission</u>		
Passed-through Mississippi Department of Education:		
Appalachian research, technical assistance, and demonstration projects	23.011	3,794
Total Appalachian Regional Commission		3,794
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.XXX	49,943
Total Federal Communications Commission		49,943
<u>U.S. Department of Education</u>		
Direct Program:		
Impact aid - facilities maintenance	84.040	42,329
Total		42,329
Passed-through Mississippi Department of Education:		
Career and technical education - basic grants to states	84.048	51,905
Safe and drug-free schools and communities- state grants	84.186	24,058
State grants for innovative programs	84.298	11
Education technology state grants	84.318	4,239
Reading first state grants	84.357	102,490
Rural education	84.358	24,891
Improving teacher quality	84.367	227,230
ARRA - State fiscal stabilization fund (SFSF) education state grants, recovery act	84.394	842,704
Subtotal		1,277,528
Title 1, part A cluster:		
Title I grants to local educational agencies	84.010	1,098,894
ARRA - Title I grants to local educational agencies, recovery act	84.389	484,007
Total title 1, part A cluster		1,582,901
Special education cluster:		
Special education - grants to states	84.027	640,971
Special education - preschool grants	84.173	26,860
ARRA - Special education - grants to states, recovery act	84.391	294,679
ARRA -Special education - preschool grants, recovery act	84.392	2,170
Total special education cluster		964,880
Total passed-through Mississippi Department of Education		3,825,309
Total U.S. Department of Education		3,867,638
Total for All Federal Awards		\$ 5,454,153

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

NOTES TO SCHEDULE

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

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

**Schedule of Instructional, Administrative and Other Expenditures – Governmental Funds
For Year Ended June 30, 2010**

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other Student Instructional Expenditures</u>	<u>General Administration</u>	<u>School Administration</u>	<u>Other</u>
Salaries and fringe benefits	\$ 18,088,399	13,629,581	657,027	1,270,379	2,531,412
Other	7,938,861	2,653,834	248,423	113,473	4,923,131
Total	\$ 26,027,260	16,283,415	905,450	1,383,852	7,454,543
 Total number of students*	 2,689				
 Cost per student	 \$ 9,680	 6,056	 337	 515	 2,772

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 and Support Services - Business.
3. School Administration - includes expenditures for the following function: 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.

OTHER SUPPLEMENTAL INFORMATION

Louisville Municipal School District

Statement of Revenues, Expenditures and Changes in Fund Balances

UNAUDITED

General Fund

Last Four Years

	2010	2009*	2008*	2007*
Revenues:				
Local sources	\$ 5,548,978	5,139,310	5,182,543	4,651,648
State sources	10,681,195	12,477,475	13,269,855	12,680,881
Federal sources	321,273	278,980	316,766	371,340
Total Revenues	16,551,446	17,895,765	18,769,164	17,703,669
Expenditures:				
Instruction	10,071,209	10,700,842	11,172,056	10,204,745
Support services	6,039,199	6,803,242	6,633,207	6,448,892
Noninstructional services	10,906	543	16,671	
Sixteenth section	23,377	24,026	16,860	22,517
Debt service:				
Principal	22,463	22,463	22,462	22,463
Total Expenditures	16,167,154	17,551,116	17,861,256	16,698,617
Excess (Deficiency) of Revenues over Expenditures	384,292	344,649	907,908	1,005,052
Other Financing Sources (Uses):				
Insurance loss recoveries		29,773	85,440	1,951
Sale of transportation equipment			8,164	
Operating transfers in	550,090	22,639	270,103	92,078
Operating transfers out	(1,033,822)	(606,778)	(657,928)	(1,140,076)
Total Other Financing Sources (Uses)	(483,732)	(554,366)	(296,221)	(1,046,047)
Net Change in Fund Balances	(99,440)	(209,717)	611,687	(40,995)
Fund Balances:				
July 1, as originally reported	4,111,339	4,321,056	3,709,369	3,759,271
Prior period adjustments				(8,907)
July 1, as restated	4,111,339	4,321,056	3,709,369	3,750,364
June 30,	\$ 4,011,899	4,111,339	4,321,056	3,709,369

*SOURCE - PRIOR YEAR AUDIT REPORTS

Louisville Municipal School District
Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Funds
Last Four Years

"UNAUDITED"

	2010	2009*	2008*	2007*
Revenues:				
Local sources	\$ 6,246,226	5,915,694	5,578,217	4,992,468
State sources	11,881,972	14,050,876	14,354,962	13,251,836
Federal sources	5,605,920	3,779,694	3,878,771	4,370,414
Sixteenth section sources	753,727	792,656	692,197	403,469
Total Revenues	24,487,845	24,538,920	24,504,147	23,018,187
Expenditures:				
Instruction	13,922,207	13,720,680	13,714,527	13,025,452
Support services	7,764,763	8,187,785	8,156,822	8,070,268
Noninstructional services	1,643,377	1,680,966	1,630,513	1,581,173
Sixteenth section	131,855	92,510	107,138	93,178
Facilities acquisition and construction	2,146,365	1,474,183		
Debt service:				
Principal	296,463	22,463	22,462	22,463
Interest	122,430	16,814		
Total Expenditures	26,027,260	25,195,401	23,631,462	22,792,534
Excess (Deficiency) of Revenues over Expenditures	(1,539,415)	(656,481)	872,685	225,653
Other Financing Sources (Uses):				
Proceeds of loans		3,300,000		
Insurance loss recoveries		29,773	85,440	1,951
Sale of transportation equipment			8,164	
Operating transfers in	1,583,912	629,417	928,031	1,232,154
Operating transfers out	(1,583,912)	(629,417)	(928,031)	(1,232,154)
Total Other Financing Sources (Uses)	0	3,329,773	91,604	1,951
Net Change In Fund Balances	(1,539,415)	2,673,292	964,289	227,604
Fund Balances:				
July 1, as originally reported	10,390,800	7,706,971	6,755,747	6,521,447
Prior period adjustments				(8,907)
July 1, as restated	10,390,800	7,706,971	6,755,747	6,512,540
Increase (Decrease) in reserve for inventory	(15,470)	10,537	(13,065)	15,603
June 30,	\$ 8,835,915	10,390,800	7,706,971	6,755,747

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROLS AND COMPLIANCE



Watkins, Ward and Stafford
Professional Limited Liability Company
Certified Public Accountants

James L. Stafford, CPA
Harry W. Stevens, CPA
S. Keith Winfield, CPA
William B. Stagers, CPA
Aubrey R. Holder, CPA
Michael W. McCully, CPA
Mort Stroud, CPA
Gary C. Hamilton, CPA
R. Steve Sinclair, CPA
Michael L. Pierce, CPA
Marsha L. McDonald, CPA

Wanda S. Holey, CPA
Robin Y. McCormick, CPA/PFS
J. Randy Schryver, CPA
Kimberly S. Caskey, CPA
Susan M. Lummus, CPA
Thomas J. Browder, CPA
Stephen D. Flake, CPA
John N. Russell, CPA
Thomas A. Davis, CPA
Anita L. Goodrum, CPA

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

Superintendent and School Board
Louisville Municipal School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Louisville Municipal School District as of and for the year ended June 30, 2010, which collectively comprise Louisville Municipal School District's basic financial statements and have issued our report thereon dated January 31, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a material weaknesses. [Finding **2010-1**].

A significant deficiency is a deficiency, or a 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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency. [Finding **2010-2**].

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted a certain immaterial instance of noncompliance or other matter that we reported to management of the school district in a separate letter dated January 31, 2011, which is included in this report.

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

Watkins, Ward and Stafford, PLLC

January 31, 2011

Watkins, Ward and Stafford, PLLC



Watkins, Ward and Stafford
Professional Limited Liability Company
Certified Public Accountants

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Thomas J. Browder, CPA
Stephen D. Flake, CPA
John N. Russell, CPA
Thomas A. Davis, CPA
Anita L. Goodrum, CPA

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
Louisville Municipal School District

Compliance

We have audited the compliance of the Louisville Municipal School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The Louisville Municipal School District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the school district's management. 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 of the school district's compliance with those requirements.

In our opinion, Louisville Municipal School District complied, in all material respects, with the compliance 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

Management of the Louisville Municipal School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Louisville Municipal School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over compliance.

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.

Watkins, Ward and Stafford, PLLC
January 31, 2011

Watkins, Ward and Stafford, PLLC

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



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

Superintendent and School Board
Louisville Municipal School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Louisville Municipal School District as of and for the year ended June 30, 2010, which collectively comprise Louisville Municipal School District's basic financial statements and have issued our report thereon dated January 31, 2011. 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 \$3,099 of classroom supply funds carried over from previous years.

Education Enhancement Funds Should Be Allocated Equally Among Teachers and a Tracking System Should Be In Place for Teacher Allocations, Spending and Balances

1. Finding

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. Section 37-61-33(3)(a)(iii), Miss Code Ann.(1972), further defines "teacher" for this statute and specifically excluded all federally funded teachers from being included in the allocation process. The State Board Policy also states that "At a minimum, each school principal shall maintain a listing of all teachers, the amount allocated to each teacher, the carry forward amount for each teacher, a copy of each spending plan and a copy of all requisitions or purchase requests submitted by the teachers"

During our test work on Education Enhancement Funds, we noted the career and technical center did not have a system in place for tracking teacher allocations, spending and balances.

This noncompliance occurred because the career and technical center did not maintain a tracking system in accordance with the district's policy.

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 allocations.

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 EEF classroom supply fund equally among all classroom teachers and each school maintain a system for tracking teacher allocations, spending and balances.

School District Response

The District will comply with Section 37-61-33(3)(a)(iii), Miss Code Ann.(1972). A meeting was held with the Director of the Career and Technical Center to discuss this matter and every effort will be made to prevent this from happening in the future.

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 instance of noncompliance with other state laws and regulations. Our finding and recommendation and your response are as follows:

PERS Retirees Should Complete PERS Form 4B

Finding

Section 25-11-127, Miss Code Ann. (1972), requires a PERS retiree to file with the district the PERS Form 4B "Certification/Acknowledgement of Reemployment of Retiree" within five days of employment.

Per review of PERS retirees employed by the district we noted three PERS retirees had not filed PERS Form 4B in compliance with Section 25-11-127, Miss Code Ann. (1972).

Inadequate controls related to filing of PERS Form 4B resulted in the Form 4B not being filed for one employee.

The retirees' retirement income could be affected by the district not filing PERS Form 4B with PERS upon reemployment of retirees each year. In addition, PERS may assess a penalty per occurrence payable by the district for not filing PERS Form 4B within five days of re-employment.

Recommendation

We recommend the district implement procedures to ensure that the district files PERS Form 4B for all retirees rehired by the school district within five days of re-employment.

School District Response

We will implement procedures to ensure that the district files PERS Form 4B for all retirees rehired by the school district within five days of re-employment.

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

The Louisville Municipal 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.

Watkins, Ward and Stafford, PLLC
January 31, 2011

Watkins, Ward and Stafford, PLLC

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

LOUISVILLE MUNICIPAL 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 to financial statements noted? | No |
| 3. | Internal control over financial reporting: | |
| a. | Material weakness(es) identified? | Yes |
| b. | Significant deficiency(ies) identified that are not considered to be material weakness(es)? | 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 weakness(es)? | None reported |
| 6. | Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? | No |
| 7. | Federal programs identified as major programs: | |
| a. | Title 1 Cluster | |
| | CFDA # 84.010 | |
| | CFDA # 84.389 | |
| b. | Special Education Cluster | |
| | CFDA # 84.027 | |
| | CFDA # 84.173 | |
| | CFDA # 84.391 | |
| | CFDA # 84.392 | |
| c. | ARRA – State Fiscal Stabilization Fund (SFSF) Education State Grants, Recovery Act | |
| | CFDA # 84.394 | |
| 8. | Dollar threshold used to distinguish between type A and type B programs: | \$ 300,000 |
| 9. | Auditee qualified as low-risk auditee? (Yes/No) | No |

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

Section II: Financial Statement Findings

Significant Deficiency Considered To Be A Material Weakness

Controls over student agency/activity fund receipts and expenditures should be strengthened

2010-1 Finding

Management is responsible for establishing a proper internal control system to ensure financial accountability and accurate reporting of activity fund revenues and expenditures.

During our testing of activity fund receipts and disbursements we noted the following deficiencies:

- A. We were informed of a potential embezzlement at Nanih Waiya. During our investigation we noted the following deficiencies over receipts and disbursements.
 - 1) The principal at the school was not reviewing the monthly transmittal reports in enough detail and not making sure the information was reported to the central office on a timely basis.
 - 2) Each club sponsor/teacher was not receiving a receipt from the secretary when they turned funds in to the principal's office.
 - 3) The principal was not reviewing the athletic event forms for accuracy nor completeness. Her signature was stamped on the form but she was not reviewing them. The assistant principal had been reviewing them up until she had surgery in September of 2009. She did not come back to work until December 2009. It appears the secretary started to really take a large amount of money at this time.
 - 4) Per interviews with teachers/sponsors there were several instances noted where the secretary forged that teachers/sponsors signature.
 - 5) Per examination of selected invoices I noted the secretary was requisitioning and approving purchase orders.
 - 6) We noted a few instances where checks were written for cash for an athletic event that did not match the cash reported on the athletic event form. No one was verifying this information.
 - 7) We also noted the school secretary was in fact acting as a purchasing agent for the school and requisitioning and authorizing purchases. This occurred due to the principal not properly reviewing disbursements on the monthly transmittal report to identify transactions she did authorize for disbursement.
- B. During our testing of activity/agency fund receipts at Noxapater we noted that during the year that some of the deposits of these funds along with cafeteria funds were not deposited on a timely basis. These deposits were sometimes not deposited until late on the next business day.
- C. During our testing of activity/agency fund disbursements we noted the following deficiencies.
 - a) We noted two instances where an invoice was not cancelled as paid. Both instances were noted at the Career and Technical Center.
 - b) We noted two instances where there was insufficient receiving documentation noted for a disbursement. One instance was at the Career and Technical Center while the other instance was at Nanih Waiya.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

Recommendation

We recommend the following internal control procedures be implemented to improve control over activity/agency fund receipts and disbursements:

- A. The principal at the applicable school should review the monthly transmittal report submitted to the central office promptly. The principal should review the report for accuracy and completeness and should review the disbursement listing for any transaction they might not have approved. The principal should also ensure that the transmittal report is submitted to the central office within 5 business days of the applicable end of the month.
- B. All athletic event transmittal forms should contain beginning and ending ticket numbers, should be reviewed and signed by all applicable gate workers, should be reviewed and signed by the applicable principal and should be submitted to the central office in a timely fashion.
- C. The district should strengthen its control over the custody of tickets for athletic events. Custody of the tickets should remain independent of person collecting cash for tickets and depositing funds into the bank.
- D. Sponsors/Teachers that turn in receipts to the principal's office should receive a copy of the receipt prepared by the secretary in the principal's office whenever they turn in the receipt.
- E. Checks written for cash should be coded to a general ledger cash on hand account so that the central office can determine if these funds were actually re-deposited at the end of the applicable athletic event.
- F. All invoices paid should be cancelled as paid and adequate receiving documentation should be attached to an invoice before it is paid.

School District Response

- (a) The Nanih Waiya Principal, Assistant Principal and the Secretary were all dismissed from the Nanih Waiya Attendance Center in the Spring of 2010. Steps have been taken to properly train the incoming Principal and Secretary of the importance of appropriately managing the Activity/Agency Accounts.
- (b) The District met with the School Food Service Manager and the Principal of the Noxapater Attendance Center concerning the significance of making timely deposits. Both the School Food Service Manager and Noxapater Principal agreed this was a control weakness and assured the Finance Office of making the necessary improvements.
- (c) The District met with the Career and Technical Center Director and the Principal of the Nanih Waiya Attendance Center concerning the cancellation of invoices after payment and maintaining sufficient receiving documentation. Both Director and the Nanih Waiya Principal agreed all invoices would be cancelled as paid and adequate receiving documentation would be attached to all invoices prior to payment.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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

Significant Deficiency Not Considered To Be A Material Weakness

Internal Controls Over Payroll Expenditures Should Be Strengthened

2010-2 Finding

Management is responsible for establishing a proper internal control system to ensure financial accountability and accurate reporting of expenditures.

During our testing of payroll disbursements we noted the following deficiencies:

- We noted the school board approved all employees by position, however the board only approved a salary scale for the superintendent of education, the director of finance, certified teachers, teacher assistants, and food service workers. There was no board approval of salaries of other administrative and classified staff, teacher or coaching supplements, or transportation or janitorial staff.
- We noted the payroll clerk was not reconciling insurance billings to amounts actually withheld from employees or making corrections to employee withholdings after changes to applicable insurance coverage. Also a significant portion of the insurance/premium notices could not be located for testing.

Recommendation

We recommend the school board approve all employees by position and approve a salary scale for all employees that would include all supplements and additional pay for after school positions and additional duties. After board approval this salary scale should be placed in the minutes of the school board's meetings. Also the payroll clerk should reconcile all insurance premium notices to the actual employee withholding.

School District Response

- (a) The District will take the necessary corrective action to ensure that employee pay scales are properly documented in the board minutes in the future.
- (b) Recently the Payroll Clerk resigned from the District and steps have been taken to clean up the payroll office. Insurances will be reconciled on a timely basis and reporting requirements will be closely monitored.

Section III: Federal Award Findings and Questioned Costs

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

SUMMARY OF PRIOR AUDIT FINDINGS

Louisville Municipal School District

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DIRECTOR OF SPECIAL EDUCATION

JEFFREY WOODWARD
TECHNOLOGY COORDINATOR

Financial and Compliance Audit Division

As required by Section _____ 315(b) of OMB Circular A-133, the Louisville Municipal School District has prepared and hereby submits the following summary schedule of prior audit findings as of June 30, 2010:

Finding	Status
2009-3	Corrected

Sincerely,

Dr. William Wade
Superintendent