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Choctaw County School District

Audited Financial Statements
June 30, 2006

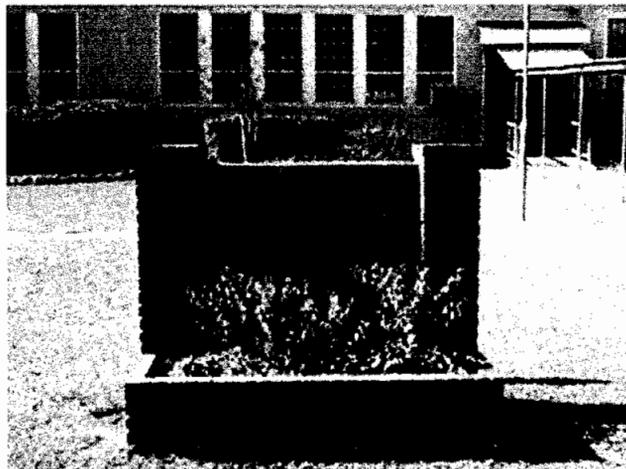
J.E. Fortenberry, III, PC
Certified Public Accountant

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Choctaw County School District
Schools in the District
06-30-06



Choctaw County Career & Technology Center



French Camp Elementary School

FINANCIAL AUDIT REPORT

**Choctaw County School District
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MANAGEMENT'S DISCUSSION AND ANALYSIS

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

**INDEPENDENT AUDITOR'S REPORT ON THE BASIC FINANCIAL
STATEMENTS ACCOMPANIED BY REQUIRED SUPPLEMENTARY
INFORMATION AND SUPPLEMENTARY INFORMATION**

Superintendent and School Board
Choctaw County School District

I have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Choctaw County School District as of and for the year ended June 30, 2006, which collectively comprise the Choctaw County School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Choctaw County School District's management. My responsibility is to express opinions on these basic financial statements based on my audit.

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

In my opinion the financial statements, referred to above, present fairly, in all material respects, the financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Choctaw County School District at June 30, 2006, and the respective changes in financial position, thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued our report dated October 17, 2006, on our consideration of the Choctaw County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide and 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 read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 9 through 16 and the Budgetary Comparison Schedule and corresponding notes on pages 47 through 52 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express

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no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Choctaw County 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.

J.E. Fortenberry, III, PC
October 17, 2006

Certified Public Accountant

**CHOCTAW COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006**

The discussion and analysis of Choctaw County School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2006. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

FINANCIAL HIGHLIGHTS

- Total net assets increased \$1,192,978, which represents 12% increase from fiscal year 2005.
- General revenues account for \$11,481,984 in revenue, or 74% of all revenues. This amount was more than the general revenues reported for the year 2005, which consisted of \$10,660,410 in revenue, but remained the same percentage wise. Last year general revenues accounted for 74% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$4,098,306 or 26% of total revenues compared with \$3,682,408 in 2005.
- The District had \$14,387,312 in expenses, an amount that increased when compared with the \$12,673,517 in expenses for the prior year; only \$4,098,306 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$11,481,984 were adequate to provide for these programs.
- Among major funds, the General Fund had \$10,536,498 in revenues and \$10,273,335 in expenditures. In 2005 the General Fund had \$9,449,417 in revenues and \$9,072,674 in expenditures. The General Fund's fund balance increased \$717,356 over the prior year.
- Capital assets, net of accumulated depreciation, increased by \$999,067. The increase is due mainly to completed construction during the fiscal year.
- Long-term debt decreased by \$141,886.

OVERVIEW OF FINANCIAL STATEMENTS

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

financial statements themselves.

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

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

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

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

The government-wide financial statements can be found on pages 18 and 19 of this report.

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

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

Because the focus of governmental funds is narrower than that of 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. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between

governmental funds and governmental activities. These reconciliations are on pages 22 and 26, respectively.

The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School Districts*. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for all major funds. All other non-major funds are combined together and presented in these reports as other governmental funds.

The basic governmental fund financial statements can be found on pages 20 and 24 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 30 of this report.

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund. This required supplementary information can be found on pages 46 of this report.

Additionally, a schedule of expenditures of federal awards, required by OMB Cir. A-133 and a schedule of instructional, administrative, and other expenditures for governmental funds can be found on pages 54 and 55 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$11,139,713 as of June 30, 2006.

By far the largest portion of the District's net assets (50%) reflects its investment in capital assets (e.g., land, buildings, improvements other than buildings, mobile equipment and furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

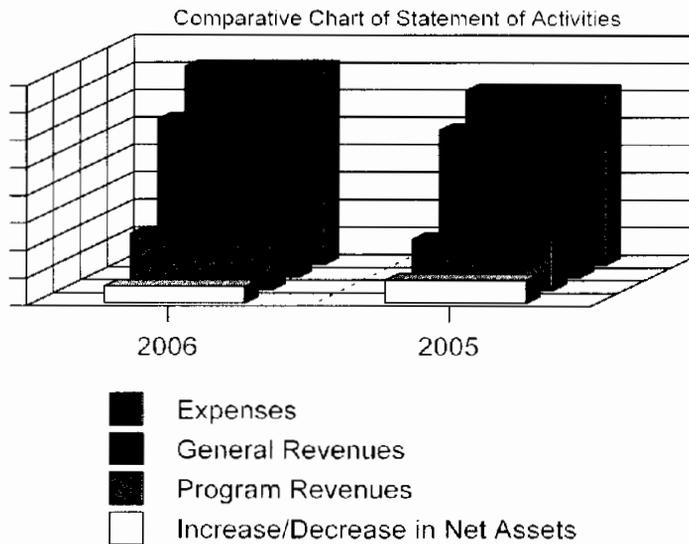
The District's financial position is a product of several financial transactions including the net result of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets and the depreciation of capital assets.

The following table presents a summary of the District's net assets for the fiscal year ended June 30, 2006, and 2005.

	2006	2005	Percentage Change
Assets			
Current assets	\$ 5,901,227	6,158,439	-4%
Capital assets, net	9,981,048	8,981,981	11%
Total assets	15,882,275	15,140,420	5%
Liabilities			
Current liabilities	68,753	377,990	-82%
Long-term liabilities	4,673,809	4,815,695	-3%
Total liabilities	4,742,562	5,193,685	-9%
Net Assets:			
Invested in capital assets, net of related debt	5,596,776	4,303,981	30%
Restricted	1,315,700	1,736,260	-24%
Unrestricted	4,227,237	3,906,494	8%
Total Net Assets	\$ 11,139,713	9,946,735	12%

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2006 were \$15,580,290. The total cost of all programs and services was \$14,387,312. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2006 and 2005.

	2006	2005	Percentage Change
Revenues			
Program Revenues			
Charges for services	\$ 657,607	651,942	1%
Operating Grants and Contributions	3,386,600	2,774,089	22%
Capital Grants and Contributions	54,099	256,377	-79%
Total Program Revenues	4,098,306	3,682,408	11%
General Revenues			
Property Taxes	3,216,805	3,008,081	7%
Unrestricted Grants and Contributions	7,404,086	6,645,032	11%
Unrestricted Investment Earnings	13,905	46,327	-70%
Sixteenth Section Sources	599,013	833,266	-28%
Other	248,175	127,704	94%
Total General Revenues	11,481,984	10,660,410	8%
Total revenues	15,580,290	14,342,818	9%
Expenses			
Instruction	8,678,686	7,837,952	11%
Support services	4,624,292	3,741,815	24%
Non-instructional	834,437	840,437	-1%
Sixteenth section	65,796	46,834	40%
Interest on long-term liabilities	184,101	206,479	-11%
Total expenses	14,387,312	12,673,517	14%
Increase (Decrease) in net assets	1,192,978	1,669,301	-29%
Net Assets, July 1	9,946,735	8,277,434	20%
Prior Period Adjustment	-	(32,935)	
Net Assets, June 30	\$ 11,139,713	9,946,735	12%

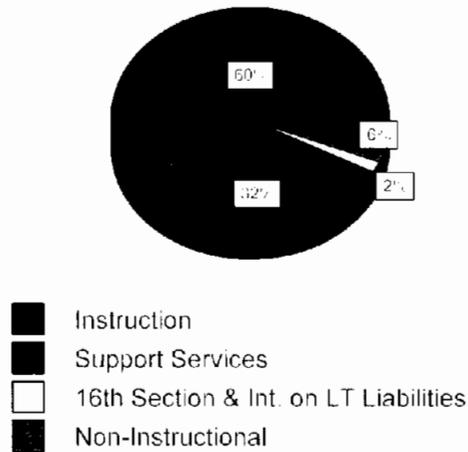


Governmental activities. The following table presents the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section and interest on long-term debt. The table also shows each function's net cost (total cost less charges for services generated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

	2006	2005	2006	2005
	Expenses	Expenses	Net (Expense) Revenue	Net (Expense) Revenue
Instruction	\$ 8,678,686	7,837,952	(5,979,992)	(6,524,712)
Support Services	4,624,292	3,741,815	(4,387,879)	(3,714,839)
Non-Instructional	834,437	840,437	210,471	1,369,541
Sixteenth Section	65,796	46,834	52,495	85,380
Interest on Long-Term Liabilities	184,101	206,479	(184,101)	(206,479)
	\$ 14,387,312	12,673,517	(10,289,006)	(8,991,109)

- Net cost of governmental activities (\$10,289,006), was financed by general revenue, which is made up of primarily property taxes \$3,216,805 and sixteenth section sources \$599,013.
- State revenue accounted for \$7,308,342 of funding.

Chart as per Statement of Activities
Expenses



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 \$5,890,186, an increase of \$70,185 due primarily to building projects being completed. \$5,140,144 or 87% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$750,042 or 13% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$717,356, a result of in lieu taxes. The Title I A Basic FY 2005 Fund, the Displaced Student Fund, and the EHA Part B FY 2005 Grant Fund remained the same due to allocation. The fund balance of the Sixteenth Section Interest Fund showed a decrease of \$220,568 due primarily to Building Fund and sold less timber. Other governmental funds decreased \$426,603 due primarily to reduction in grant funds.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget. Historical data,

tentative allocations of state and federal funds, legislative mandates, and anticipated needs are used to determine original budget amounts.

The District's original budget was prepared with the district's goals and long range commitments in mind, using historical data, tentative allocations or estimates of state and federal funds, legislative mandates, staffing studies, and current and anticipated needs. Over the course of the year, the District revised the annual operating budget as changes occurred.

Budget amounts for expenditures were amended to reflect actual revenues and expenditures.

At the time the original budget was prepared only estimates were available for federal funding. Typically original budgets are prepared using prior year allocation as estimates. Once federal awards were known, budgets were amended to the actual grant award amount. Over the course of the year, the District revised the annual operating budget.

During the fiscal year Choctaw County School District amended the General Fund final budget to reflect actual revenues and expenditures.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2006, the District's total capital assets were \$14,290,192, including land, school buildings, buses, other school vehicles, furniture and equipment. This amount represents an increase of \$1,274,766 from the previous year. Total accumulated depreciation as of June 30, 2006 was \$4,309,144 and total depreciation expense for the year was \$334,803, resulting in total net capital assets of \$9,981,048.

	Capital Assets, Net of Depreciation		Percentage
	2006	2005	Change
Land	\$ 100,072	99,450	1%
Construction in progress	-	2,246,424	-100%
Buildings	9,049,722	6,061,546	49%
Building Improvements	222,522	-	100%
Improvements other than buildings	10,788	10,788	0%
Mobile equipment	572,178	533,570	7%
Furniture and equipment	25,766	30,203	-15%
	\$ 9,981,048	8,981,981	11%

Additional information of the District's capital assets can be found in Note 5 on page 40 of this report.

Debt Administration. At June 30, 2006, the District had \$0 in general obligation bonds outstanding and \$4,673,809 other long-term debt outstanding, of which \$317,477 is due within

one year. The District maintains an AA bond rating.

	2006	2005	Percentage Change
Limited obligation bonds payable	\$ 4,384,272	4,678,000	-6%
Shortfall notes payable	-	11,105	-100%
Compensated absences	289,537	126,590	129%
	\$ 4,673,809	4,815,695	-3%

Additional information of the District's long-term debt can be found in Note 6 on page 40 of this report.

CURRENT ISSUES

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Choctaw County School District, P.O. Box 398, Ackerman, MS 39735 .

FINANCIAL STATEMENTS

CHOCTAW COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities
Assets	
<i>Cash and cash equivalents</i>	\$ 4,897,098
<i>Investments</i>	93,986
<i>Due from other governments</i>	568,706
<i>Accrued interest receivable</i>	13,066
<i>Other receivables, net</i>	8,253
<i>Inventories and prepaid items</i>	23,248
<i>Restricted assets</i>	296,870
<i>Capital assets, not being depreciated</i>	
<i>Land</i>	100,072
<i>Capital Assets, net of accumulated depreciation</i>	
<i>Buildings</i>	9,049,722
<i>Building improvements</i>	222,522
<i>Improvements other than buildings</i>	10,788
<i>Mobile equipment</i>	572,178
<i>Furniture and equipment</i>	25,766
Total Assets	<u>15,882,275</u>
Liabilities	
<i>Accounts payable and accrued liabilities</i>	11,040
<i>Interest payable on long-term liabilities</i>	57,713
Long-term liabilities (due within one year):	
<i>Capital related liabilities</i>	303,000
<i>Non-capital related liabilities</i>	14,477
Long-term liabilities (due beyond one year)	
<i>Capital related liabilities</i>	4,081,272
<i>Non-capital related liabilities</i>	275,060
Total Liabilities	<u>4,742,562</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	5,596,776
Restricted For:	
School - based activities	267,484
Debt Service	286,087
Forestry Improvements	385,765
Unemployment Benefits	68,225
Sixteenth section	
Expendable	35,335
Nonexpendable	272,804
Unrestricted	4,227,237
Total Net Assets	<u>\$ 11,139,713</u>

The accompanying notes are an integral part of this statement.

CHOCTAW COUNTY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Functions/Programs	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions		
Primary government					Governmental Activities
Governmental Activities:					
Instruction	8,678,686	335,863	2,308,732	54,099	(5,979,992)
Support services	4,624,292	--	236,413	--	(4,387,879)
Noninstructional services	834,437	203,453	841,455	--	210,471
Sixteenth section	65,796	118,291	--	--	52,495
Interest on long-term liabilities	184,101	--	--	--	(184,101)
Total Primary Government	<u>\$ 14,387,312</u>	<u>\$ 657,607</u>	<u>\$ 3,386,600</u>	<u>\$ 54,099</u>	<u>(10,289,006)</u>
General Revenues:					
Taxes:					
General purpose levies					3,046,808
Debt purpose levies					169,997
Unrestricted grants and contributions:					
State					7,308,342
Federal					95,744
Unrestricted investment earnings					13,905
Sixteenth section sources					599,013
Other					248,175
Total general revenues					<u>11,481,984</u>
Change in Net Assets					<u>1,192,978</u>
Net Assets - Beginning					<u>9,917,788</u>
Prior Period Adjustment					<u>28,947</u>
Net Assets - Restated					<u>9,946,735</u>
Net Assets - Ending					<u>\$ 11,139,713</u>

The accompanying notes are an integral part of this statement.

CHOCTAW COUNTY SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2006

	General Fund	Title I A Basic FY 2005	Displaced Students Grant
ASSETS			
<i>Cash and cash equivalents</i>	\$ 1,841,505	\$ --	\$ --
<i>Investments</i>	--	--	--
<i>Due from other governments</i>	100,491	134,097	51,255
<i>Accrued interest receivable</i>	1,797	--	--
<i>Other receivables, net</i>	--	--	--
<i>Due from other funds</i>	301,393	--	--
<i>Inventories and prepaid items</i>	--	--	--
Total Assets	\$ 2,245,186	\$ 134,097	\$ 51,255
LIABILITIES AND FUND BALANCES			
Liabilities:			
<i>Accounts payable and accrued liabilities</i>	\$ --	\$ --	\$ --
<i>Due to other funds</i>	--	134,097	51,255
Total Liabilities	--	134,097	51,255
Fund balances:			
Reserved for:			
<i>Inventory</i>	--	--	--
<i>Forestry improvements</i>	--	--	--
<i>Unemployment</i>	--	--	--
<i>Permanent funds</i>	--	--	--
Unreserved, undesignated, reported in:			
<i>General fund</i>	2,245,186	--	--
<i>Special Revenue funds</i>	--	--	--
<i>Debt service funds</i>	--	--	--
<i>Permanent funds</i>	--	--	--
Total Fund Balances	2,245,186	--	--
Total Liabilities and Fund Balances	\$ 2,245,186	\$ 134,097	\$ 51,255

EHA Part B FY 2005 Grant Fund	16th Section Interest Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 2,313,737	\$ 1,038,726	\$ 5,193,968
-	--	93,985	93,985
64,912	--	217,951	568,706
-	--	11,269	13,066
-	8,253	--	8,253
-	--	--	301,393
-	--	23,248	23,248
<u>\$ 64,912</u>	<u>\$ 2,321,990</u>	<u>\$ 1,385,179</u>	<u>\$ 6,202,619</u>
\$ -	\$ 11,040	\$ --	\$ 11,040
64,912	--	51,129	301,393
<u>64,912</u>	<u>11,040</u>	<u>51,129</u>	<u>312,433</u>
-	--	23,248	23,248
-	--	385,765	385,765
-	--	68,225	68,225
-	--	272,804	272,804
-	--	--	2,245,186
-	2,310,950	267,483	2,578,433
-	--	281,190	281,190
-	--	35,335	35,335
-	2,310,950	1,334,050	5,890,186
<u>\$ 64,912</u>	<u>\$ 2,321,990</u>	<u>\$ 1,385,179</u>	<u>\$ 6,202,619</u>

CHOCTAW COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Total fund balances - governmental funds balance sheet	\$ 5,890,186
Amounts reported for governmental activities in the statement of net assets ("SNA") are different because:	
Capital assets used in governmental activities are not reported in the funds.	9,981,048
Liabilities due in one year are reported in SNA but not in the funds	(317,477)
Payables for bond principal which are not due in the current period are not reported in the funds.	(4,081,272)
Payables for bond interest which are not due in the current period are not reported in the funds.	(57,713)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(275,060)
Rounding difference	1
	<hr/>
Net assets of governmental activities - statement of net assets	\$ <u>11,139,713</u>

The accompanying notes are an integral part of this statement.

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CHOCTAW COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	General Fund	Title I A Basic FY 2005	Displaced Students Grant
Revenue:			
<i>Local sources</i>	\$ 3,490,894	\$ --	\$ --
<i>State sources</i>	6,963,097	--	--
<i>Federal sources</i>	82,507	966,387	73,255
<i>Sixteenth section sources</i>	--	--	--
Total revenues	<u>10,536,498</u>	<u>966,387</u>	<u>73,255</u>
Expenditures:			
Instruction	6,087,943	719,503	69,548
Support services	3,457,039	246,164	3,707
Noninstructional services	--	720	--
Sixteenth section	--	--	--
Facilities acquisition and construction	728,353	--	--
Debt service:			
<i>Principal</i>	--	--	--
<i>Interest</i>	--	--	--
Total expenditures	<u>10,273,335</u>	<u>966,387</u>	<u>73,255</u>
Excess (deficiency) of revenues (over) expenditures	263,163	--	--
Other financing sources (uses):			
Insurance loss recoveries	120,229	--	--
Operating transfers in	1,103,258	--	--
Operating transfers out	(769,294)	--	--
Other financing uses	--	--	--
Total other financing sources (uses)	<u>454,193</u>	<u>--</u>	<u>--</u>
Net change in fund balance	717,356	--	--
Fund Balances:			
July 1, 2005	1,527,830	--	--
Increase (decrease) in reserve for inventory	--	--	--
June 30, 2006	<u>\$ 2,245,186</u>	<u>\$ --</u>	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

EXHIBIT D

EHA Part B FY 2005 Grant Fund	16th Section Interest Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 402,387	\$ 3,893,281
-	-	959,167	7,922,264
409,183	-	1,424,826	2,956,158
-	744,597	135,654	880,251
<u>409,183</u>	<u>744,597</u>	<u>2,922,034</u>	<u>15,651,954</u>
249,457	-	1,380,523	8,506,974
171,503	-	742,984	4,621,397
-	-	838,044	838,764
-	2,935	62,861	65,796
-	-	446,241	1,174,594
-	-	304,833	304,833
-	-	188,997	188,997
<u>420,960</u>	<u>2,935</u>	<u>3,964,483</u>	<u>15,701,355</u>
(11,777)	741,662	(1,042,449)	(49,401)
-	-	-	120,229
11,777	-	674,611	1,789,646
-	(962,230)	(58,122)	(1,789,646)
-	-	(643)	(643)
<u>11,777</u>	<u>(962,230)</u>	<u>615,846</u>	<u>119,586</u>
-	(220,568)	(426,603)	70,185
-	2,531,518	1,754,763	5,814,111
-	-	5,890	5,890
<u>\$ -</u>	<u>\$ 2,310,950</u>	<u>\$ 1,334,050</u>	<u>\$ 5,890,186</u>

CHOCTAW COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds	\$ 70,185
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	1,329,561
The depreciation of capital assets used in governmental activities is not reported in the funds.	(334,803)
The gain or loss on the sale of capital assets is not reported in the funds.	(2,191)
Adjustments to capital assets	6,500
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	293,728
Repayment of principal is an expenditure in the funds but is not an expense in the SOA.	11,105
(Increase) decrease in accrued interest from beginning of period to end of period	4,896
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	(162,947)
Change in inventory is adjustment to FB in funds but affects Non-Instructional EX in SOA	5,890
Prior Period Adjustment	28,947
Rounding difference	1
	<u>1,192,978</u>
Change in net assets of governmental activities - statement of activities	\$ 1,192,978

The accompanying notes are an integral part of this statement.

CHOCTAW COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

	<u>Private-purpose Trust Funds</u>	<u>Agency Funds</u>
ASSETS AND OTHER DEBITS		
Assets:		
<i>Cash and cash equivalents</i>	\$ 32,005	\$ 475,918
<i>Accrued interest receivable</i>	1,060	--
Total Assets	<u>\$ 33,065</u>	<u>\$ 475,918</u>
LIABILITIES, EQUITY AND OTHER CREDITS		
Liabilities:		
<i>Accounts Payable and accrued liabilities</i>		\$ 372,793
<i>Due to student clubs</i>		103,125
Total Liabilities		<u>\$ 475,918</u>
Fund Balances:		
Reserved for Endowments	<u>\$ 33,065</u>	
Total Equity and Other Credits	<u>\$ 33,065</u>	

The accompanying notes are an integral part of this statement.

CHOCTAW COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Private- Purpose Trusts
Additions:	
Investment Income	\$ 1,197
Other Income	550
Total Additions	<u>1,747</u>
Deductions:	
Scholarship Awards	1,600
Total Deductions	<u>1,600</u>
Change in Net Assets	147
Net Assets-Beginning of the Year	32,918
Net Assets-End of the Year	<u>\$ 33,065</u>

The accompanying notes are an integral part of this statement.

Choctaw County School District

Notes to the Financial Statements
June 30, 2006

Choctaw County School District

Notes to the Financial Statements
For the Year Ended June 30, 2006

(1) Summary of Significant Accounting Policies.

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

A. Financial Reporting Entity.

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the school district's governing board. As defined by accounting principles generally accepted in the United States of America, the school district is considered a "primary government." The school district is governed by a five member board to which each member was elected by the citizens of each defined county district.

B. Basis of Presentation.

The school district's basic financial statement consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the school district as a whole. They include all funds of the reporting entity except for fiduciary funds, if applicable. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange revenues.

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

Choctaw County School District

Notes to the Financial Statements
For the Year Ended June 30, 2006

with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the school district.

Fund Financial Statements:

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

C. Measurement Focus and Basis of Accounting.

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

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

The school district reports the following major governmental funds:

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

Title I A Basic FY 2005 - This is the school district's federally funded program offering remedial mathematics, language arts, and reading instruction to eligible students under a school-wide structured project.

Choctaw County School District

Notes to the Financial Statements
For the Year Ended June 30, 2006

Displaced Students Grant Fund - This fund is used to account for the monies received from grants related to the educational needs of individuals and educational institutions affected by hurricanes in the Gulf of Mexico in the year 2005.

EHA Part B FY 2005 Grant Fund - This fund accounts for the transactions of the special education grants to states program.

Sixteenth Section Interest Fund - The Sixteenth Section Interest Funds are funds used to account for maintaining and improving sixteenth section lands. Only the earnings, and not the principal, may be used.

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

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

Choctaw County School District

Notes to the Financial Statements For the Year Ended June 30, 2006

D. Account Classifications.

The account classifications used in the financial statements conform to the classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting* as issued in 2005 by the Government Finance Officers Association and are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 1990* issued by the U.S. Department of Education.

E. Encumbrances.

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

F. Cash and Cash Equivalents.

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

Cash and cash equivalents consists of amounts on deposit in demand accounts and certificates of deposit with maturities of 12 months or less. Cash and cash equivalents are valued at cost.

G. Investments.

The school district can invest its excess funds, as permitted by Section 29-3-113, Miss. Code Ann. (1972), in interest-bearing deposits or other obligations of the types described in Section 27-105-33, Miss. Code Ann. (1972), or in any other type investment in which any other agency, instrumentality or subdivision of the state of Mississippi may invest, except that 100% of said funds are authorized to be so invested.

For accounting purposes, certificates of deposit are classified as investments if they have a maturity greater than 12 months when acquired. Investments are reported at fair value.

H. Inventories and Prepaid Items.

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

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

Certain payments to vendors reflect costs applicable to future accounting periods are recorded as prepaid items in both governmental and fund financial statements.

Choctaw County School District

Notes to the Financial Statements
For the Year Ended June 30, 2006

I. Capital Assets.

Capital acquisition and construction are reflected as expenditures in the Governmental Fund statements and the related assets are reported as capital assets in the governmental activities column in the government-wide financial statements.

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

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

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

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

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

J. Long-term liabilities.

Long-term liabilities are the unmatured principal of bonds, warrants, notes, or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments. In the government-wide Statement of Net Assets, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column. See Note 6 for details.

Choctaw County School District

Notes to the Financial Statements
For the Year Ended June 30, 2006

K. Interfund Transactions and Balances.

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

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

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

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

L. Equity Classifications.

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

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

Choctaw County School District

Notes to the Financial Statements
For the Year Ended June 30, 2006

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

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

Reserved for forestry improvements - An account that represents a portion of the fund balance that is legally restrict 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.

M. Property Taxes.

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

N. Mississippi Adequate Education Program Revenues.

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

O. Compensated Absences.

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

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

(2) Changes in Accounting Standards.

Choctaw County School District

Notes to the Financial Statements
For the Year Ended June 30, 2006

As required, the Choctaw County School District has implemented Government Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* for the current fiscal year. This Statement requires governments to evaluate major events effecting capital assets to determine whether they are impaired. Such events include physical damage, changes in legal or environmental factors technology changes or obsolescence, changes in the manner or duration of use and construction stoppage. Appropriate note disclosures have been incorporated to comply with the requirements of this standard.

(3) Cash and Cash Equivalents and Investments.

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

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

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

Choctaw County School District

Notes to the Financial Statements
For the Year Ended June 30, 2006

Cash and Cash Equivalents.

The carrying amount of the school district's deposits reported in the governmental funds and fiduciary funds was \$5,193,968 and \$507,923, respectively. The carrying amount of deposits reported in government-wide statements was: Cash and Cash Equivalents \$4,897,098 and Restricted Assets \$296,870. The Restricted Assets represents the cash balance of the 16th section Principal funds (Permanent Funds) which is legally restricted and may not be used for purposes that support the district's program. The bank balance was \$6,273,368.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2006, none of the district's bank balance of \$6,273,368 was exposed to custodial credit risk.

Investments.

As of June 30, 2006, the district had the following investments in the Hancock Bank's Trust Department investment pool.

Investment Type	Maturities (in years)	Fair Value	Rating
Treasury Securities Money Market Funds	N/A	\$ <u>93,986</u>	A
Total Investments		\$ <u>93,986</u>	

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

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

Custodial Credit Risk - Investments. Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The

Choctaw County School District

Notes to the Financial Statements
For the Year Ended June 30, 2006

district does not have a formal investment policy that addresses custodial credit risk. Of the district's investments in Hancock Bank, \$93,986 of underlying securities are held by the investment's counterparty, not in the name of the district. As of June 30, 2006, the district did not have any investments to which this would apply.

Concentration of Credit Risk. Disclosures of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2006, the district had the following investments:

Issuer	Fair Value	% of Total Investments
Hancock Horizon Treasury Sec. Money Market CI A	\$ 93,986	100%
	<u>\$ 93,986</u>	

(4) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

	<u>Due From</u>	<u>Due To</u>
Governmental funds:		
General fund	\$ 301,393	0
Title I A Basic FY 2005	0	134,097
Displaced Students Grant	0	51,255
EHA Part B FY 2005 Grant Fund	0	64,912
Other Governmental funds	<u>0</u>	<u>51,129</u>
Total Funds	<u>\$ 301,393</u>	<u>301,393</u>

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

B. Transfers In/Out.

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental funds:		
General fund	\$ 1,103,258	769,294
EHA Part B FY 2005 Grant Fund	11,777	0
Sixteenth Section Interest Fund	0	962,230

Choctaw County School District

Notes to the Financial Statements
For the Year Ended June 30, 2006

	<u>Transfers In</u>	<u>Transfers Out</u>
Other Governmental Funds	674,611	58,122
Total Funds	\$ <u>1,789,646</u>	<u>1,789,646</u>

The purpose of the transfers was to provide funds for general operating activities. All transfers were routine and consistent with the fund making the transfer.

(5) Capital Assets.

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

	Balance 7-1-2005	Addition	Retirement	Completed Construction	Adjustments	Balance 6-30-2006
<u>Non-depreciable capital assets:</u>						
Land	\$ 99,450	622				100,072
Construction in progress	2,246,424			(2,246,424)		0
Total non-depreciable capital assets	2,345,874	622	0	(2,246,424)	0	100,072
<u>Depreciable capital assets:</u>						
Buildings	8,746,087	933,389		2,246,424		11,925,900
Building Improvements	0	240,583				240,583
Improvements other than buildings	53,940					53,940
Mobile equipment	1,648,647	140,975				1,789,622
Furniture and equipment	220,878	13,992	54,795			180,075
Total depreciable capital assets	10,669,552	1,328,939	54,795	2,246,424	0	14,190,120
<u>Less accumulated depreciation for:</u>						
Buildings	2,684,541	206,575			(14,938)	2,876,178
Building Improvements	0	9,623			8,438	18,061
Improvements other than buildings	43,152	0				43,152
Mobile equipment	1,115,077	102,367				1,217,444
Furniture and equipment	190,675	16,238	52,604			154,309
Total accumulated depreciation	4,033,445	334,803	52,604		(6,500)	4,309,144
Total depreciable capital assets, net	6,636,107	994,136	2,191	2,246,424	6,500	9,880,976
Governmental activities capital assets, net	8,981,981	994,758	2,191	0	6,500	9,981,048

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$190,013
Support services	143,870
Non-Instructional	<u>920</u>
Total depreciation expense	\$334,803

Choctaw County School District

Notes to the Financial Statements
For the Year Ended June 30, 2006

Adjustments were made during the fiscal year to accurately reflect the accumulated depreciation recorded.

(6) Long-term liabilities.

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

	Balance 7-1-2005	Additions	Reductions	Adjustments	Balance 6-30-2006	Amounts due within one year
A. Shortfall notes payable	\$ 11,105		11,105		0	
B. Limited Obligations Bonds	2,860,000		159,728		2,700,272	165,000
C. Limited Obligations Bonds	1,818,000		134,000		1,684,000	138,000
D. Compensated absences payable	126,590	162,947			289,537	14,477
Total	\$ 4,815,695	162,947	304,833	0	4,673,809	317,477

A. Shortfall notes payable.

This debt was paid out of the General Fund.

B. Limited obligations bonds.

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

Description	Interest Rate	Issue Date	Maturity Date	Issued	Outstanding
State Aid Capital Improvement Bonds	variable	03-01-99	02-01-18	\$ 3,400,000	2,700,272
Total				\$ 3,400,000	2,700,272

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

Year Ending June 30	Principal	Interest	Total
2007	\$ 165,000	119,978	284,978
2008	170,000	111,290	281,290
2009	175,000	103,785	278,785
2010	180,000	95,975	275,975

Choctaw County School District

Notes to the Financial Statements
For the Year Ended June 30, 2006

2011	190,000	87,740	277,740
2012-2016	1,049,000	279,683	1,328,683
2017-2021	<u>771,272</u>	<u>43,438</u>	<u>814,710</u>
Total	\$ <u>2,700,272</u>	<u>841,889</u>	<u>3,542,161</u>

The state aid capital improvement bonds are secured by an irrevocable pledge of certain revenues from the State of Mississippi pursuant to the Mississippi Accountability and the Adequate Education Act, Sections 37-151-1 through 37-151-107 of the Mississippi Code Ann. (1972). The state aid capital improvement bonds are not included in the computation of the debt limit percentage. This debt will be retired from the 4041 fund.

C. Limited obligations bonds.

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Marurity Date</u>	<u>Issued</u>	<u>Outstanding</u>
Bonds	variable	05-28-04	05-01-19	\$ 2,000,000	1,684,000
Total				<u>\$ 2,000,000</u>	<u>1,684,000</u>

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 138,000	57,669	195,669
2008	142,000	53,538	195,538
2009	145,000	49,088	194,088
2010	120,000	44,818	164,818
2011	120,000	40,828	160,828
2012-2016	625,000	136,638	761,638
2017-2021	<u>394,000</u>	<u>24,120</u>	<u>418,120</u>
Total	\$ <u>1,684,000</u>	<u>406,699</u>	<u>2,090,699</u>

This debt will be repaid out of the Three Mill Note, Building and Buses, and District Maintenance.

D. Compensated absences payable.

Choctaw County School District

Notes to the Financial Statements For the Year Ended June 30, 2006

The amount of compensated absences accrued for school district employees at June 30, 2006 is \$289,537. As more fully explained in Note 1 (O), compensated absences payable is adjusted on an annual basis as required by Section 37-7-307(5), Miss. Code Ann. (1972). Compensated absences will be paid from the fund from which the employees' salaries were paid.

(7) Defined Benefit Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The rate for fiscal year ended June 30, 2006 was 10.75% of the annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2006, 2005 and 2004 were \$864,205, \$704,440 and \$672,270, 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 fore uses by the public schools. The following are the future rental payments to be made to the school district for the use of school trust lands. These future rental payments are from existing leases and do not anticipate renewals or new leases.

Year Ending		Amount
June 30		
2007	\$	21,559
2008		21,434
2009		7,183

Choctaw County School District

Notes to the Financial Statements
For the Year Ended June 30, 2006

2010	7,973
2011	9,353
2012-2016	12,238
2017-2021	4,813
2022-2026	<u>1,953</u>
Total	\$ <u>86,506</u>

(9) 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 119 school districts and covers risks of loss arising from injuries to the school district's employees. The Mississippi Workman's Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Bancorp South Bank in Jackson, Mississippi. The funds in the trust account are used to pay any claim up to \$500,000. For a claim exceeding \$500,000, MSBAWCT has insurance which will pay the excess up to \$25,000,000. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

(9) Uncertainties.

In cases where a township is occupied by two or more school districts, state law requires that available sixteenth section funds shall be divided between the school districts lying wholly or partly within such townships in proportion to the number of children enrolled and residing in each school district. In order to determine what portions of available sixteenth section funds are due to or from other school districts, the superintendent of each school district is required to compile lists of such children in compliance with section 29-3-121, Miss. Code Ann. (1972). Because none of the school districts which share townships with Choctaw County School District nor the Choctaw County School District itself filed lists of children as required, no division of sixteenth section revenues has been accrued as a receivable or payable, as the case may be.

Choctaw County School District

Notes to the Financial Statements
For the Year Ended June 30, 2006

Of the townships Choctaw County School District shares with other school districts, Choctaw County School District has control of some of the sixteenth section property. A portion of the sixteenth section revenues (rents, leases, timber sales, etc.) Choctaw County School District received on these sections may be due to other school districts. In addition, on the other townships where another school district controls the sixteenth section property, Choctaw County School District may be entitled to a portion of the sixteenth section revenues the other school district(s) received. Because none of the school districts compiled and filed lists of children as state law requires in either the current year or in preceding years, neither the amounts of any liabilities owed to other school districts nor the amounts of any receivables from other school districts can be determined.

(10) Alternative School Consortium.

The school district entered into an Alternative School Agreement dated September 2, 1993, creating the Quad County Alternative School. This consortium was created pursuant to the provisions of Section 37-13-92(6), Miss. Code Ann. (1972), and approved by the Mississippi Department of Education and includes the Starkville School District, the Louisville School District, the Noxubee County School District, the Oktibbeha County School District and the Webster County School District.

Section 37-13-92 (6), Miss. Code Ann. (1972), allows two or more adjacent school districts to enter into a contract to operate an alternative school program. The school board of the school district designated by the agreement as the lead district will serve as the governing board of the alternative school program. Transportation for students attending the alternative school program will be the responsibility of the individual school district sending the students.

The Starkville School District has been designated as the lead school district for the Quad County Alternative School, and the operations of the consortium are included in its financial statements.

(11) Prior Period Adjustments/Exhibits.

A summary of significant fund equity adjustments is as follows:

Exhibit B - Statement of Activities

<u>Explanation(s)</u>	<u>Amount</u>
1. Private purpose trust fund was included as part of the government-wide financial statement in the previous year. It is correctly presented in the current year.	\$ 28,947

REQUIRED SUPPLEMENTARY INFORMATION

CHOCTAW COUNTY SCHOOL DISTRICT

Budgetary Comparison Schedule

Exhibit 1

General Fund

For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 3,532,661	3,490,893	3,490,894	(41,768)	1
State sources	6,910,482	6,963,096	6,963,097	52,614	1
Federal sources	50,000	82,507	82,507	32,507	0
Total Revenues	10,493,143	10,536,496	10,536,498	43,353	2
Expenditures:					
Instruction	6,049,941	6,087,943	6,087,943	(38,002)	0
Support services	3,733,721	3,457,039	3,457,039	276,682	0
Facilities acquisition and construction	1,044,913	740,954	728,353	303,959	12,601
Debt Service:					
Principal	52,949	-	-	52,949	-
Total Expenditures	10,881,524	10,285,936	10,273,335	595,588	12,601
Excess (Deficiency) of Revenues Over Expenditures	(388,381)	250,560	263,163	638,941	12,603
Other Financing Sources (Uses):					
Insurance Loss Recoveries	5,547	120,229	120,229	114,682	(0)
Sale of Transportation Equipment	-	-	-	-	-
Sale of Other Property	-	-	-	-	-
Operating transfers in	1,252,960	1,103,258	1,103,258	(149,702)	0
Operating transfers out	(860,284)	(769,294)	(769,294)	90,990	-
Total Other Financing Sources (Uses)	398,224	454,193	454,193	55,970	(0)
Net Change in Fund Balances	9,843	704,754	717,356	694,911	12,602
Fund Balances:					
July 1, 2005	-	-	1,527,830	-	-
Prior period adjustments (Note)	-	-	-	-	-
July 1, 2005, as restated	-	-	1,527,830	-	-
June 30, 2006	\$ 9,843	704,754	2,245,186	694,911	12,602

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

CHOCTAW COUNTY SCHOOL DISTRICT

Budgetary Comparison Schedule

Exhibit 2

Title I - A Basic FY 2005

For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 985,373	966,387	966,387	(18,986)	-
Total Revenues	985,373	966,387	966,387	(18,986)	-
Expenditures:					
Instruction	691,869	719,503	719,503	(27,634)	-
Support services	283,650	246,164	246,164	37,486	-
Non-Instructional	9,854	720	720	9,134	-
Debt Service:					
Principal				-	-
Total Expenditures	985,373	966,387	966,387	18,986	-
Excess (Deficiency) of Revenues Over Expenditures	-	-	-	-	-
Other Financing Sources (Uses):					
Operating transfers in	-	-	-	-	-
Operating transfers out	-	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-	-
Net Change in Fund Balances	-	-	-	-	-
Fund Balances:					
July 1, 2005	-	-	-	-	-
Prior period adjustments (Note)	-	-	-	-	-
July 1, 2005, as restated	-	-	-	-	-
June 30, 2006	\$ -	-	-	-	-

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

CHOCTAW COUNTY SCHOOL DISTRICT

Budgetary Comparison Schedule
 Displaced Students Grant
 For the Year Ended June 30, 2006

Exhibit 3

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$	73,255	73,255	73,255	-
Total Revenues	-	73,255	73,255	73,255	-
Expenditures:					
Instruction		69,548	69,548	(69,548)	-
Support services		3,707	3,707	(3,707)	-
Facilities acquisition and construction				-	-
Debt Service:				-	-
Principal				-	-
Total Expenditures	-	73,255	73,255	(73,255)	-
Excess (Deficiency) of Revenues Over Expenditures	-	-	-	-	-
Other Financing Sources (Uses):					
Operating transfers in				-	-
Operating transfers out				-	-
Total Other Financing Sources (Uses)	-	-	-	-	-
Net Change in Fund Balances	-	-	-	-	-
Fund Balances:					
July 1, 2005	-	-	-	-	-
Prior period adjustments (Note)	-	-	-	-	-
July 1, 2005, as restated	-	-	-	-	-
June 30, 2006	\$	-	-	-	-

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

CHOCTAW COUNTY SCHOOL DISTRICT

Budgetary Comparison Schedule

EHA PART B FY 2005

For the Year Ended June 30, 2006

Exhibit 4

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 507,219	409,183	409,183	(98,036)	-
Total Revenues	507,219	409,183	409,183	(98,036)	-
Expenditures:					
Instruction	246,292	249,458	249,457	(3,166)	1
Support services	260,927	171,502	171,503	89,425	(1)
Facilities acquisition and construction				-	-
Total Expenditures	507,219	420,960	420,960	86,259	-
Excess (Deficiency) of Revenues Over Expenditures	-	(11,777)	(11,777)	(11,777)	-
Other Financing Sources (Uses):					
Operating transfers in		11,777	11,777	11,777	-
Operating transfers out				-	-
Total Other Financing Sources (Uses)	-	11,777	11,777	11,777	-
Net Change in Fund Balances	-	-	-	-	-
Fund Balances:					
July 1, 2005	-	-			
Prior period adjustments (Note)	-	-		-	-
July 1, 2005, as restated	-	-	-	-	-
June 30, 2006	\$ -	-	-	-	-

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

CHOCTAW COUNTY SCHOOL DISTRICT

Budgetary Comparison Schedule
 16th Section Interest Fund
 For the Year Ended June 30, 2006

Exhibit 5

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Sixteenth Section sources	\$ 569,163	748,569	744,597	179,406	(3,972)
Total Revenues	569,163	748,569	744,597	179,406	(3,972)
Expenditures:					
Sixteenth Section	83,039	2,935	2,935	80,104	-
Total Expenditures	83,039	2,935	2,935	80,104	-
Excess (Deficiency) of Revenues Over Expenditures	486,124	745,634	741,662	259,510	(3,972)
Other Financing Sources (Uses):					
Operating transfers out	(1,033,052)	(962,230)	(962,230)	70,822	-
Total Other Financing Sources (Uses)	(1,033,052)	(962,230)	(962,230)	70,822	-
Net Change in Fund Balances	(546,928)	(216,596)	(220,568)	330,332	(3,972)
Fund Balances:					
July 1, 2005	-	-	2,531,518		
Prior period adjustments (Note)	-	-			
July 1, 2005, as restated	-	-	2,531,518		
June 30, 2006	\$ (546,928)	(216,596)	2,310,950	330,332	2,527,546

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

Choctaw County School District

Notes to the Required Supplementary Information
For the Year Ended June 30, 2006

Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(2) Budget amendments and revisions.

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

SUPPLEMENTAL INFORMATION

Choctaw County School District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2006

Schedule 1

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	Catalog of Federal Domestic Assistance Number	Federal Expenditures
U. S. DEPARTMENT OF AGRICULTURE/ Passed-through the Mississippi Department of Education:		
Non-cash assistance:		
Food Donation	10.550	\$44,969
Child Nutrition Cluster:		
School Breakfast Program	10.553	190,093
National School Lunch Program	10.555	421,963
Total Child Nutrition cluster		<u>612,056</u>
Total passed-through the MDE		<u>612,056</u>
TOTAL U. S. DEPARTMENT OF AGRICULTURE		<u>657,025</u>
FEDERAL COMMUNICATION COMMISSION		
Administered through Universal Service Administrative Company:		
The school and libraries program of the Universal Service Fund	32.xxx	22,014
Total Federal Communication Commission		<u>22,014</u>
U. S. DEPARTMENT OF EDUCATION/ Passed-through the Mississippi Department of Education:		
Title I Grants to Local Educational Agencies	84.010	1,061,764
Vocational Education-Basic Grants to States	84.048	27,900
Safe and Drug-Free Schools and Communities - State Grants	84.186	19,369
Eisenhower Professional Development State Grants	84.281	141,210
Twenty-First Century Community Learning Centers	84.287	351,771
State Grants for Innovative Programs	84.298	6,411
Education Technology - state grants	84.318	18,007
Rural Education	84.358	58,352
Hurricane Education Recovery	84.938	91,176
Special Education Cluster:		
Special Education - Grants to States	84.027	417,960
Special Education - Preschool Grants	84.173	9,472
Total Special Education Cluster		<u>427,432</u>
Total passed-through the MDE		<u>427,432</u>
TOTAL U. S. DEPARTMENT OF EDUCATION		<u>2,203,392</u>
TOTAL FOR ALL FEDERAL AWARDS		<u>\$2,882,431</u>

Notes to Schedule

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

Choctaw County School District
Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
For the Year Ended June 30, 2006

Expenditures	Total	Instruction and Other Instructional	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 10,673,950	8,554,019	357,922	537,022	1,224,987
Other	5,027,405	1,143,206	89,903	16,881	3,777,415
Total	\$ 15,701,355	9,697,225	447,825	553,903	5,002,402

Total number of students * 1,954

Cost per student \$ 8,035 4,963 229 283 2,560

Instruction and other Student Instructional Expenditures - includes the activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teachers aides or classroom assistants of any type. (all the 1000, 2100 & 2200 functional codes)
 General Administration - includes expenditures for the following functions: Support Services - General Administration (2300s); Support Services - Business (2500s)
 School Administration - includes expenditures for the following functions: Support Services - School Administration (2400s)
 Other - includes all expenditure functions not included in Instruction or Administration categories
 includes 100 and 200 range object codes on the "Salaries and fringe benefits" line; all other expenditures on the "Other" line

INTERNAL CONTROL AND COMPLIANCE REPORTS

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

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

Superintendent and School Board
Choctaw County School District

I have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Choctaw County School District as of and for the year ended June 30, 2006, and have issued my report thereon dated October 17, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the school district's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I did not note any matters involving internal control over financial reporting and its operation that I consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests did not disclose any instances of noncompliance that are required to be reported under Government Auditing Standards.

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

J.E. Fortenberry, III, PC
October 17, 2006

Certified Public Accountant

J.E. FORTENBERRY, III, PC

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Superintendent and School Board
Choctaw County School District

Compliance

I have audited the compliance of the Choctaw County School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. The school district's major federal programs are identified in the summary of the auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contract and grants applicable to each of its major federal programs is the responsibility of the school district's management. My responsibility is to express an opinion on the school district's compliance based on my audit.

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

In my opinion, the Choctaw County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the Choctaw County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the school district's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

AICPA & MSCPA

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My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulation, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I did not note any matters involving internal control over compliance and its operation that I consider to be material weaknesses.

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

J.E. Fortenberry, III, PC
October 17, 2006

Certified Public Accountant

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

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

Superintendent and School Board
Choctaw County School District

I have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Choctaw County School District as of and for the year ended June 30, 2006, which collectively comprise Choctaw County School District's basic financial statements and have issued my report thereon dated October 17, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Section 37-9-18(3), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure that the school district is complying with the requirements of Section 37-61-33(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds". As required by the state legal compliance audit program prescribed by the Office of the State Auditor, I have also performed procedures to test compliance with certain state laws and regulations. However, providing an opinion on compliance with state laws and regulations was not an objective of my audit and, accordingly, I do not express such an opinion.

The results of my procedures performed to test compliance with the requirements of Section 37-61-33 (3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$39,442.82 of classroom supply funds carried over from previous years.

The results of procedures performed to test compliance with certain other state laws and regulations and my audit of the financial statements disclosed no instances of noncompliance with other state laws and regulations.

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

J.E. Fortenberry, III, PC
October 17, 2006

Certified Public Accountant

FINDINGS, CORRECTIVE ACTION PLAN AND AUDIT FOLLOW-UP

Choctaw County School District

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006**

Section 1: Summary of Auditor's Results

Financial Statements:

1. Type of auditor's report issued on the financial statements: Unqualified.
2. Material noncompliance relating to the financial statements? No.
3. Internal control over financial reporting:
 - a. Material weaknesses identified? No.
 - b. Reportable conditions identified that are not considered to be material weaknesses? No.

Federal Awards:

4. Type of auditor's report issued on compliance for major federal programs: Unqualified.
5. Internal control over major programs:
 - a. Material weaknesses identified? No.
 - b. Reportable conditions identified that are not considered to be material weaknesses? No.
6. Any audit findings reported as required by Section ____.510(a) of OMB Circular A-133? No.
7. Federal programs identified as major programs:
 - a. Child Nutrition Cluster:
CFDA# 10.553
CFDA# 10.555
 - b. Title I Grants to Local Educational Agencies.
CFDA# 84.010
 - c. Twenty First Century Community Learning Centers
CFDA# 84.287
8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. Auditee qualified as a low-risk auditee? Yes.

10. Prior fiscal year audit findings and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ___315(b) of OMB Circular A-133? No.

Section2: Findings Relating to the Financial Statements

The results of our tests did not disclose any findings related to the financial statements that are required to be reported by Government Auditing Standards.

Section 3: Findings and Questioned Costs for Federal Awards

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

