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KEMPER COUNTY SCHOOL DISTRICT

**Audited Financial Statements
For the Year Ended June 30, 2006**

KEMPER COUNTY SCHOOL DISTRICT

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KEMPER COUNTY SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

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

Superintendent and School Board
Kemper County School District

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 3, 2007, on our consideration of the Kemper County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 4 through 10 and the Budgetary Comparison Schedule and corresponding notes on pages 34 through 36 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Kemper 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.

Windham and Lacey, PLLC

Windham and Lacey, PLLC
July 3, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The discussion and analysis of Kemper 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 \$410,034, which represents 10% increase from fiscal year 2005.
- General revenues account for \$7,860,990 in revenue, or 70% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$3,440,883 or 30% of total revenues.
- The District had \$10,915,571 in expenses; only \$3,440,883 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$7,860,990 were adequate to provide for these programs.
- Among major funds, the General Fund had \$6,917,462 in revenues and \$7,153,218 in expenditures and \$730,820 in other financing sources and uses. The General Fund's fund balance increased \$495,064 over the prior year. The increase was a result of total revenues outpacing total expenditures.
- Capital assets, net of accumulated depreciation, increased by \$35,486. This was a result of current year additions increasing at a greater rate than depreciation expense.
- Long-term debt decreased by \$170,314. The District issued no new debt during the fiscal year ending June 30, 2006.

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.

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.

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

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

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 major special revenue fund.

Additionally, a schedule of expenditures of federal awards is required by OMB Circular A-133 and a schedule of instructional, administrative and other expenditures for governmental funds can be found on pages 38 and 40, respectively, 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 \$4,682,336 as of June 30, 2006.

By far the largest portion of the District's net assets (66%) reflects its investment in capital assets (e.g., land, buildings, improvements other than buildings, mobile equipment, furniture and equipment, and construction in progress), less any related debt used to acquire those assets that are 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, as compared to the fiscal year ended June 30, 2005:

	Net Assets June 30, 2006	June 30, 2005	Percentage Change
Current assets	\$ 2,277,525	2,198,646	3.59%
Capital assets, net	5,089,537	5,054,051	0.70%
Total assets	<u>7,367,062</u>	<u>7,252,697</u>	1.58%
Current liabilities	601,836	727,191	-17.24%
Long-term debt outstanding	2,082,890	2,253,204	-7.56%
Total liabilities	<u>2,684,726</u>	<u>2,980,395</u>	-9.92%
Net assets:			
Invested in capital assets, net of related debt	3,104,537	2,949,051	5.27%
Restricted	1,636,878	1,921,654	-14.82%
Unrestricted	(59,079)	(598,403)	-90.13%
Total net assets	<u>\$ 4,682,336</u>	<u>4,272,302</u>	9.60%

The following is a significant current year transaction that has had an impact on the Statement of Net Assets:

- Long-term debt principal of \$171,761 was retired.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2006, were \$11,301,873. The total cost of all programs and services was \$10,915,571. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2006 and 2005, respectively:

	Current year Amount	Prior year Amount	
Revenues:			
Program revenues	\$ 3,440,883	3,595,276	-4.29%
General revenues	7,860,990	8,442,975	-6.89%
Total revenues	<u>11,301,873</u>	<u>12,038,251</u>	-6.12%
Expenses:			
Instruction	6,161,610	6,247,518	-1.38%
Support services	3,865,938	3,783,848	2.17%
Non-instructional	723,083	693,503	4.27%
Sixteenth section	49,120	206,506	-76.21%
Interest and other expenses on long-term liabilities	<u>115,820</u>	<u>96,799</u>	19.65%
Total expenses	<u>10,915,571</u>	<u>11,028,174</u>	-1.02%
Increase in net assets	<u>\$ 386,302</u>	<u>1,010,077</u>	-61.76%

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	
	Total Expenses	Net (Expense) Revenue	Total Expenses	Net (Expense) Revenue
Instruction	\$ 6,161,610	(4,620,780)	6,247,518	(3,726,948)
Support services	3,865,938	(3,013,794)	3,783,848	(3,783,848)
Non-instructional	723,083	103,176	693,503	100,839
Sixteenth Section	49,120	(49,120)	206,506	73,858
Interest and other expenses on long-term liabilities	<u>115,820</u>	<u>105,830</u>	<u>96,799</u>	<u>(96,799)</u>
Total expenses	<u>\$ 10,915,571</u>	<u>(7,474,688)</u>	<u>11,028,174</u>	<u>(7,432,898)</u>

- Net cost of governmental activities (\$7,474,688), was financed by general revenue, which is made up of primarily property taxes (\$1,184,717), state revenue (\$5,369,042) and federal revenues (\$143,755), and Sixteenth Section sources (\$907,083).

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 \$1,698,995, an increase of \$199,813, due primarily to slight increases during the year of normal revenues over ongoing expenditures, and an increase of \$1,088 for the increase in reserve for inventory. \$746,950 or 44% 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 \$952,045 or 56% 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 \$495,064. The increase was a result of total expenses outpacing total revenues. Among other major funds, the Sixteenth Section Interest Fund decreased by \$215,618, the Sixteenth Section Principal Fund increased \$1,605, and the Other Governmental Funds decreased \$81,238 for the fiscal year ending June 30, 2006. Other Governmental Funds decreased primarily due to operating expenditures being more than revenue received for the fiscal year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget. The following are revisions made to the General Fund.

Local Revenues increased by \$98,685 over original budget due to several factors:

- Transportation fees from other sources were \$8,000 more than original budget due to an increase in field trips and athletic related events.
- School Districts received a retirement credit toward the salaries of employees that were paid from state and local funds. This accounted for an increase in local revenue of \$44,840.
- The Athletic Department experienced an increase in admissions of \$20,631 over original budget of \$50,000 due to an increase in ticket sales.
- Due to Hurricane Katrina our West Kemper Elementary School was adopted by an elementary school in New York where we received \$23,214 in additional local revenue over original budget.

State Revenues decreased by \$52,741 over original budget due to the following:

- There were a number of items budgeted that never materialized such as; severance tax, privilege tax, rail tax and heavy truck tax
- The Master Teacher supplement was budgeted for more than what the district actually received.

Federal Revenue decreased \$14,985 over original budget due to the following:

- There was \$14,500 originally budgeted for Revenue for/on behalf of Lea that did not materialize.

Instructional expense decreased due to less money spent out of Title Programs on Instructional materials.

There was an increase in Support Services due to increased cost as a result of Hurricane Katrina, specifically Operation & Maintenance of Plant and Transportation (fuel cost).

The school district received \$31,551 in Insurance Loss Recoveries as a result of bus accidents and Hurricane Katrina aftermath.

Transfers in:

- The school district purchased a couple of buses
- There were a number of operating transfers received to cover day to day operation.
- Transfers were made to cover debt service payments

Transfers Out:

- The school district transferred out funds to cover year-end transactions
- Transfers out were made to cover debt service payments
- To cover the purchase of buses, transfers out were made to cover this expense.

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 \$8,146,022, including land, school buildings, busses, other school vehicles and furniture and equipment. This amount represents an increase of \$239,846 from the previous year. The majority of this increase was a result of construction costs of \$59,248, of furniture and equipment purchases of \$35,742, and the purchase of mobile equipment for \$164,572, and the retirement of \$41,989 of mobile equipment. Immaterial adjustments of \$22,273 were made to furniture and equipment. The total accumulated depreciation as of June 30, 2006, was \$3,056,485 and total depreciation expense for the year was \$230,813 resulting in total net capital assets of \$5,089,537.

	Capital Assets, Net of Depreciation		Percentage Change
	2006	2005	
Land	\$ 25,410	25,410	
Construction in progress	623,927	1,163,179	(46.36)%
Buildings	3,900,165	3,412,598	14.29%
Improvements other than buildings	38,425	38,425	0.00%
Mobile equipment	281,658	210,790	33.62%
Furniture and equipment	219,952	203,649	8.01%
Total	\$ 5,089,537	5,054,051	0.70%

Debt Administration. At June 30, 2006, the District had \$1,985,000 in limited obligation bonds, and \$41,164 in other loans, of which \$136,761 is due within one year.

	Outstanding Debt		Percentage Change
	2006	2005	
Limited obligation bonds payable	\$ 1,985,000	2,105,000	(5.70)%
Three mill notes payable		40,000	(100.00)%
Other loans payable	41,164	52,925	687.83%
Compensated absences payable	56,726	55,279	2.62%
Total	\$ 2,082,890	2,253,204	(5.56)%

CURRENT ISSUES

The Kemper 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 millage has decreased .32 mills over 3 years. In addition, the District system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

Latest enrollment figures indicate that student enrollment in the District will increase by 23 students. The budget for the next fiscal year has taken into account this increase in both funding and staffing needs.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Kemper County School District, PO Box 219, DeKalb, MS, 39328.

KEMPER COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS

Kemper County School District
Statement of Net Assets
June 30, 2006

Exhibit A

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 1,511,783
Cash with fiscal agents	86
Investments	26,980
Due from other governments	597,406
Other receivables, net	3,351
Inventories and prepaid items	21,624
Restricted assets	116,295
Capital assets, net of accumulated depreciation	
Land	25,410
Construction in progress	623,927
Buildings	3,900,165
Improvements other than buildings	38,425
Mobile equipment	281,658
Furniture and equipment	219,952
Total Assets	<u>7,367,062</u>
Liabilities	
Accounts payable and accrued liabilities	26,510
Due to other funds	457,243
Deferred revenue/Unearned revenue	94,777
Interest payable on long-term liabilities	23,306
Long-term liabilities, due within one year	
Capital related liabilities	125,000
Non-capital related liabilities	14,203
Long-term liabilities, due beyond one year	
Capital related liabilities	1,860,000
Non-capital related liabilities	83,687
Total Liabilities	<u>2,684,726</u>
Net Assets	
Invested in capital assets, net of related debt	3,104,537
Restricted net assets:	
Expendable:	
School-based activities	507,551
Debt service	123,579
Capital improvements	95,318
Forestry improvements	264,117
Unemployment benefits	28,413
Permanent fund purposes	1,605
Non-expendable:	
Sixteenth section	616,295
Unrestricted	(59,079)
Total Net Assets	<u>\$ 4,682,336</u>

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

KEMPER COUNTY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2006

Exhibit B

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction	\$ 6,161,610	123,176	1,417,654	(4,620,780)
Support services	3,865,938		852,144	(3,013,794)
Non-instructional	723,083	99,474	726,785	103,176
Sixteenth section	49,120			(49,120)
Interest on long-term liabilities	115,820		221,650	105,830
Total Governmental Activities	\$ 10,915,571	222,650	3,218,233	(7,474,688)

General Revenues:

Taxes:

General purpose levies	\$ 1,184,717
Debt purpose levies	40,895
Unrestricted grants and contributions:	
State	5,369,042
Federal	143,755
Unrestricted investment earnings	34,454
Sixteenth section sources	907,083
Other	181,044
Total General Revenues	7,860,990

Change in Net Assets	386,302
Net Assets - Beginning	4,272,302
Prior Period Adjustments	23,732
Net Assets - Beginning - Restated	4,296,034
Net Assets - Ending	\$ 4,682,336

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

ASSETS

	General Funds	16th Section Interest Fund	16th Section Principal Fund	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 270,987	509,665	116,295	731,131	1,628,078
Cash with fiscal agents				86	86
Investments				26,980	26,980
Due from other governments	93,819			503,586	597,405
Due from other funds	508,165		605		508,770
Advance to other funds			500,000		500,000
Inventories and prepaid items		2,351	1,000	21,624	21,624
Other receivables, net		512,016	617,900		3,351
Total Assets	\$ 872,971	\$ 512,016	\$ 617,900	\$ 1,283,407	\$ 3,286,294

LIABILITIES AND FUND BALANCES

Liabilities:					
Accounts payable and accrued liabilities	\$ 1,402	25,000		106	26,508
Due to other funds	332,758	236,135		397,121	966,014
Advances from other funds	500,000				500,000
Deferred revenue				94,777	94,777
Total Liabilities	\$ 834,160	\$ 261,135	\$ 0	\$ 492,004	\$ 1,587,299

Fund Balances:					
Reserved for:					
Advances			500,000		500,000
Unemployment benefits				28,413	28,413
Forestry improvements				264,117	264,117
Inventory				21,624	21,624
Debt Service				137,891	137,891
Unreserved:					
Undesignated, reported in:					
General Fund	38,811				38,811
Special Revenue Funds		250,881		235,046	485,927
Capital Projects Funds				95,318	95,318
Debt Service Funds				8,994	8,994
Permanent Funds			117,900		117,900
Total Fund Balances	\$ 38,811	\$ 250,881	\$ 617,900	\$ 791,403	\$ 1,698,995
Total Liabilities and Fund Balances	\$ 872,971	\$ 512,016	\$ 617,900	\$ 1,283,407	\$ 3,286,294

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

KEMPER COUNTY SCHOOL DISTRICT

Exhibit C-1

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2006

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 1,698,995
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets are used in governmental activities and are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$3,056,485.	5,089,537
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(2,082,890)
3. Governmental funds recognize interest on long-term debt when it becomes due, however the Statement of Net Assets recognizes interest as it accrues.	<u>(23,306)</u>
Total Net Assets - Governmental Activities	\$ <u><u>4,682,336</u></u>

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

KEMPER COUNTY SCHOOL DISTRICT
 Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds
 For the year ended June 30, 2006

	General Funds	16th Section Interest Fund	16th Section Principal Fund	Other Governmental Funds	Total Governmental Funds
Local sources	\$ 1,404,738			128,237	1,532,975
State sources	5,369,209			515,346	5,884,555
Federal sources	143,515			2,679,745	2,823,260
Sixteenth section sources		794,045	22,833	115,433	932,311
Total Revenues	<u>6,917,462</u>	<u>794,045</u>	<u>22,833</u>	<u>3,438,761</u>	<u>11,173,101</u>
Instruction	4,361,388			1,694,909	6,056,297
Support services	2,771,770			1,167,534	3,939,304
Noninstructional services	5,614			718,557	724,171
Sixteenth section		7,479		41,641	49,120
Facilities acquisition and construction				59,248	59,248
Debt service:					
Principal				171,761	171,761
Interest	14,446			102,837	117,283
Other				411	411
Total Expenditures	<u>7,153,218</u>	<u>7,479</u>	<u>0</u>	<u>3,956,898</u>	<u>11,117,595</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(235,756)</u>	<u>786,566</u>	<u>22,833</u>	<u>(518,137)</u>	<u>55,506</u>
Insurance loss recoveries	31,551			119,264	150,815
Operating transfers in	1,304,430	300,000		727,109	2,331,539
Operating transfers out	(598,498)	(1,302,184)	(21,228)	(409,629)	(2,331,539)
Miscellaneous	(6,663)			155	(6,508)
Total Other Financing Sources (Uses)	<u>730,820</u>	<u>(1,002,184)</u>	<u>(21,228)</u>	<u>436,899</u>	<u>144,307</u>
Net Change in Fund Balances	<u>495,064</u>	<u>(215,618)</u>	<u>1,605</u>	<u>(81,238)</u>	<u>199,813</u>

(Exhibit D Continued)

KEMPER COUNTY SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds
For the year ended June 30, 2006

	General Funds	16th Section Interest Fund	16th Section Principal Fund	Other Governmental Funds	Total Governmental Funds
Fund balances---July 1, 2005, as previously reported	(450,199)	466,499	616,295	857,553	1,490,148
Prior period adjustment	(6,054)			14,000	7,946
Fund balances---July 1, 2005, restated	(456,253)	466,499	616,295	871,553	1,498,094
Increase in reserve for inventory	0	0	0	1,088	1,088
Fund balances---June 30, 2006	\$ 38,811	250,881	617,900	791,403	1,698,995

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

KEMPER COOUNTY SCHOOL DISTRICT
 Reconciliation of the Governmental Funds Statement of Revenues,
 Expenditures and Changes in Fund Balances to the Statement of Activities
 For the Year Ended June 30, 2006

Exhibit D-1

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ 199,813
Amounts reported for governmental activities in the Statement of Activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchase amounted to \$259,562 and the depreciation expense amounted to \$ 230,813.	28,749
2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Activities.	171,761
3. Governmental funds recognize interest on long-term debt when it becomes due, however, the Statement of Activities recognizes interest as it accrues regardless of when it becomes due.	1,875
4. Gains and losses on the sale or disposals of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds.	8,004
5. Increase in inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are decreased in the Statement of Activities.	1,088
6. Expenses in the Statement of Activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds:	
Compensated absences	(1,447)
7. Proceeds from insurance loss recoveries are reported as other financing sources in the governmental funds, but net against book value of the asset in the Statement of Activities.	<u>(23,541)</u>
Change in Net Assets of Governmental Activities	\$ <u>386,302</u>

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

KEMPER COUNTY SCHOOL DISTRICT
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2006

Exhibit E

ASSETS		<u>Amount</u>
Cash	\$	56,896
Due from other funds		<u>457,244</u>
Total assets	\$	<u><u>514,140</u></u>
LIABILITIES		
Accounts payable and accrued liabilities	\$	<u>514,140</u>
TOTAL LIABILITIES	\$	<u><u>514,140</u></u>

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

KEMPER COUNTY SCHOOL DISTRICT

Notes to 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 5-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 statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements:

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

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

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.

KEMPER COUNTY SCHOOL DISTRICT

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

C. Measurement Focus and Basis of Accounting.

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

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

The school district reports the following major governmental funds:

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

Sixteenth Section Interest Fund - This fund serves to collect expendable sixteenth section revenues from various sixteenth section sources. Expendable revenues from this fund are transferred to the district's General Fund per specific statutory board order.

Sixteenth Section Principal Fund - This is a permanent fund consisting of funds derived from certain uses which shall be invested and only the interest and income derived from such funds shall be expendable by the school district

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

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.

KEMPER COUNTY SCHOOL DISTRICT

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

FIDUCIARY FUNDS

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

D. Account Classifications.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting* as issued in 2005 by the Government Finance Officers Association and are consistent with the broad classifications recommended in *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 consist 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.

Prepaid items, such as prepaid insurance, are not reported for governmental fund types since the costs of such items are accounted for as expenditures in the period of acquisition.

KEMPER COUNTY SCHOOL DISTRICT

Notes to 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.

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.

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. Noncurrent portions of long-term interfund loan receivables are reported as advances and are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and, therefore, are not available for appropriation.

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

KEMPER COUNTY SCHOOL DISTRICT

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

Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 4 for details for interfund transactions, including receivables and payables at year-end.

L. Equity Classifications.

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

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

Reserved for advances - An account used to offset advances recorded in the asset accounts since they do not constitute available spendable resources and are not 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 improvement purposes - An account that represents a portion of the fund balance that is legally restricted for improving sixteenth section forest lands.

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

Reserved 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.

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.

KEMPER COUNTY SCHOOL DISTRICT

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

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.

P. Other Significant Accounting Policies.

The Debt Service Funds for long-term debt issued prior to April 15, 1986, under the provisions of Section 37-59-101, Miss. Code Ann. (1972), *et seq.*, and prior to March 3, 1987, under the provisions of Section 37-59-1, Miss. Code Ann. (1972), *et seq.*, are maintained by the governing authority of the county and are not included in the government-wide financial statements of the school district. The borrowing of money by the issuance of the debt referred to above was a function of the governing authority of the county prior to April 15, 1986, or March 3, 1987, as the case may be.

In our state, school boards and superintendents had no responsibility in connection with the debt issued before the dates referred to above. The payment of this debt is an obligation of the governing authority of the county who is acting for the school district.

In connection with any debt issued subsequent to the dates referred to above, the school board is responsible for the issuance and maintenance of school district related debt.

(2) Changes in Accounting Standards

As required, the Kemper 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, Cash with Fiscal Agents, and Investments.

A. Cash and Cash Equivalents.

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:

KEMPER COUNTY SCHOOL DISTRICT

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

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

Cash and Cash Equivalents.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$1,628,164 and \$56,896, respectively. The carrying amount of deposits reported in the government-wide financial statements was: cash and cash equivalents - \$1,511,869 and restricted assets - \$116,295. The restricted assets of \$116,295 represent the cash balance of the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$2,253,126.

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 \$2,253,126 was exposed to custodial credit risk.

KEMPER COUNTY SCHOOL DISTRICT

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

B. Investments.

As of June 30, 2006, the district had the following investments:

<u>Investment Type</u>	<u>Maturities (in years)</u>	<u>Fair Value</u>	<u>Rating</u>
Hancock Horizon treasury money market	Less than 1 year	\$ 26,980	Aaa

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

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

Custodial Credit Risk - Investments. Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk. As of June 30, 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:

<u>Issuer</u>	<u>Fair Value</u>	<u>Percentage of Total Investments</u>
Hancock Horizon Treasury Sec. Money Market Class A	\$ 26,980	100%

KEMPER COUNTY SCHOOL DISTRICT

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

(4) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

<u>Governmental Funds</u>	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 508,165	332,758
Sixteenth Section Interest Fund		236,135
Sixteenth Section Principal Fund	605	
Other Governmental Funds		397,121
Total Governmental Funds	508,770	966,014
Fiduciary Funds	457,244	0
Total All Funds	\$ 966,014	966,014

The purpose of the above loans represents loans for working capital.

B. Advances From/To Other Funds:

	<u>Advances From</u>	<u>Advances To</u>
General Fund	\$ 500,000	
Sixteenth Sectional Principal Fund		\$ 500,000

Sixteenth section loans payable.

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

Year Ending	Principal	Interest	Total
30-Jun			
2007	41,503	19,245	60,748
2008	43,193	17,554	60,747
2009	44,953	15,794	60,747
2010	46,785	13,963	60,748
2011	48,691	12,056	60,747
2012-2016	274,875	28,859	303,734
Total	500,000	107,471	607,471

The purpose of the advance was for construction costs associated with the HVAC and roofing project.

KEMPER COUNTY SCHOOL DISTRICT

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

C. Transfers In/Out:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 1,304,430	598,498
16th Section Interest Fund	300,000	1,302,184
16th Section Principal Fund		21,228
Other Governmental Funds	<u>727,109</u>	<u>409,629</u>
Total	<u>\$ 2,331,539</u>	<u>2,331,539</u>

All interfund transfers were routine and consistent with the activities of the fund making the transfers.

(5) Capital Assets.

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

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Completed Construction & Adjustments</u>	<u>Balance June 30, 2006</u>
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 25,410				25,410
Construction in progress	1,163,179	59,248		(598,500)	623,927
Total capital assets, not being depreciated	<u>1,188,589</u>	<u>59,248</u>	<u>0</u>	<u>(598,500)</u>	<u>649,337</u>
Capital assets, being depreciated:					
Buildings	5,205,071			598,500	5,803,571
Improvements other than buildings	38,425				38,425
Mobile equipment	1,088,833	164,572	(41,989)		1,211,416
Furniture and equipment	385,258	35,742		22,273	443,273
Total capital assets being depreciated	<u>6,717,587</u>	<u>200,314</u>	<u>(41,989)</u>	<u>620,773</u>	<u>7,496,685</u>
Total assets	<u>7,906,176</u>	<u>259,562</u>	<u>(41,989)</u>	<u>22,273</u>	<u>8,146,022</u>

KEMPER COUNTY SCHOOL DISTRICT

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

	Balance July 1, 2005	Additions	Deletions	Completed Construction & Adjustments	Balance June 30, 2006
Less: Accumulated depreciation for:					
Buildings	1,792,473	110,933			1,903,406
Mobile equipment	878,043	78,168	(26,453)		929,758
Furniture and equipment	181,609	41,712	0		223,321
Total accumulated depreciation	<u>2,852,125</u>	<u>230,813</u>	<u>(26,453)</u>	<u>0</u>	<u>3,056,485</u>
Total capital assets, being depreciated, Net	<u>3,865,462</u>	<u>(30,499)</u>	<u>(15,536)</u>	<u>620,773</u>	<u>4,440,200</u>
Governmental activities capital assets, net	<u>\$ 5,054,051</u>	<u>28,749</u>	<u>(15,536)</u>	<u>22,273</u>	<u>5,089,537</u>

Completed construction of \$598,500 was reclassified from Construction in Progress to Buildings. And, various immaterial adjustments of \$22,273 were made to Furniture and Equipment.

(6) Long-term Liabilities.

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

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Amounts due within one year
Limited obligation bonds payable	\$ 2,105,000		120,000	1,985,000	125,000
Three mill notes payable	40,000		40,000	0	0
Other loans payable	52,925		11,761	41,164	11,761
Compensated absences payable	<u>55,279</u>	<u>1,447</u>		<u>56,726</u>	<u>2,442</u>
Total	<u>\$ 2,253,204</u>	<u>1,447</u>	<u>171,761</u>	<u>2,082,890</u>	<u>139,203</u>

A. Limited Obligation Bonds Payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State Aid Capital Improvement Bonds	Varies	4/1/1998	4/1/2018	\$ <u>2,600,000</u>	<u>1,985,000</u>
Total				\$ <u>2,600,000</u>	<u>1,985,000</u>

KEMPER COUNTY SCHOOL DISTRICT

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

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 and Maintenance Charges</u>	<u>Total</u>
2007	\$ 125,000	93,225	218,225
2008	135,000	85,725	220,725
2009	140,000	77,625	217,625
2010	145,000	71,325	216,325
2011	155,000	64,800	219,800
2012-2016	875,000	213,975	1,088,975
2017-2018	410,000	27,900	437,900
Total	\$ 1,985,000	634,575	2,619,575

The state aid capital improvement bonds are secured by an irrevocable pledge of certain revenues the district receives from the State of Mississippi pursuant to the Mississippi Accountability and Adequate Education Program Act, Sections 37-151-1 through 37-151-7, Miss. 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 Debt Service Fund #4031 – MAEP note fund.

B. Other Loans Payable.

Debt currently outstanding is as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Asbestos loan	N/A	5/14/1990	5/14/2010	\$ 211,700	\$ 41,164

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>Maintenance Charges</u>	<u>Total</u>
2007	\$ 11,761		11,761
2008	11,761		11,761
2009	11,761		11,761
2010	5,881		5,881
Total	\$ 41,164	0	41,164

This debt will be retired from Debt Service Fund # 4023 – Asbestos loan fund.

C. Compensated absences payable.

As more fully explained in Note 1(O), compensated absences payable is adjusted on an annual basis as required by Section 37-7-307(5), Miss. Code Ann. (1972). Compensated absences will be paid from the fund from which the employees' salaries were paid.

KEMPER COUNTY SCHOOL DISTRICT

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

(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 current rate is 10.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2006, 2005 and 2004 were \$637,080, \$585,584 and \$536,264, respectively, which equaled the required contributions for each year.

(8) Sixteenth Section Lands.

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

<u>Year ending June 30:</u>	<u>Amount</u>
2007	\$ 53,798
2008	32,742
2009	26,049
2010	21,388
2011	18,112
2012-2016	89,210
2017-2021	89,210
2022-2026	87,959
2027-2031	67,835
2032-2036	62,560
2037-2041	59,560
2042-2045	<u>31,007</u>
Total	\$ <u>639,430</u>

KEMPER COUNTY SCHOOL DISTRICT

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

(10) Prior Period Adjustments/Exhibits.

A summary of significant fund equity adjustments is as follows:

Exhibit B - Statement of Activities

Explanations		Amount
Various immaterial adjustments to fixed assets	\$	22,273
Adjustment due to error in beginning accrued interest payable		(6,487)

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

Major Funds	Explanations		
General Fund	Net effect of adjustment for		(6,054)
Other Governmental Funds	numerous coding errors in prior year transactions		14,000
			23,732
Total		\$	23,732

(11) Litigation.

The school district is party to various legal proceedings which normally occur in governmental operations. These legal proceedings are not likely to have a material impact on the affected funds of the school district.

(12) 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. 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.

KEMPER COUNTY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

KEMPER COUNTY SCHOOL DISTRICT
 Budgetary Comparison Schedule
 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	\$ 1,305,057	1,403,742	1,404,738	98,685	996
State sources	5,421,950	5,369,209	5,369,209	(52,741)	
Federal sources	158,500	143,515	143,515	(14,985)	
Total Revenues	<u>6,885,507</u>	<u>6,916,466</u>	<u>6,917,462</u>	<u>30,959</u>	<u>996</u>
Expenditures:					
Instruction	4,412,841	4,360,496	4,361,388	52,345	(892)
Support services	2,725,064	2,771,858	2,771,770	(46,794)	88
Noninstructional services	4,876	5,614	5,614	(738)	
Debt service:					
Principal	20000	20,000			20,000
Interest			14,446		(14,446)
Total Expenditures	<u>7,162,781</u>	<u>7,157,968</u>	<u>7,153,218</u>	<u>4,813</u>	<u>4,750</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(277,274)</u>	<u>(241,502)</u>	<u>(235,756)</u>	<u>35,772</u>	<u>5,746</u>
Other Financing Sources (Uses):					
Insurance loss recoveries		31,551	31,551	31,551	
Operating transfers in	631,665	1,935,481	1,304,430	1,303,816	(631,051)
Operating transfers out	(387,241)	(1,222,999)	(598,498)	(835,758)	624,501
Miscellaneous			(6,663)		(6,663)
Total Other Financing Sources (Uses)	<u>244,424</u>	<u>744,033</u>	<u>730,820</u>	<u>499,609</u>	<u>(13,213)</u>
Net Change in Fund Balances	<u>(32,850)</u>	<u>502,531</u>	<u>495,064</u>	<u>535,381</u>	<u>(7,467)</u>
Fund Balances:					
July 1, 2005	66,129	(449,540)	(450,199)	(515,669)	(659)
Prior period adjustments		(12,717)	(6,054)	(12,717)	6,663
July 1, 2005, as restated	<u>66,129</u>	<u>(462,257)</u>	<u>(456,253)</u>	<u>(528,386)</u>	<u>6,004</u>
June 30, 2006	\$ <u>33,279</u>	<u>40,274</u>	<u>38,811</u>	<u>6,995</u>	<u>(1,463)</u>

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

KEMPER COUNTY SCHOOL DISTRICT
 Budgetary Comparison Schedule
 Sixteenth Section Interest 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:					
Sixteenth section sources	\$ 237,500	794,045	794,045	556,545	
Total Revenues	237,500	794,045	794,045	556,545	0
Expenditures:					
Sixteenth section	18,500	7,478	7,479	11,022	(1)
Total Expenditures	18,500	7,478	7,479	11,022	(1)
Excess (Deficiency) of Revenues over Expenditures	219,000	786,567	786,566	567,567	(1)
Other Financing Sources (Uses):					
Operating transfers in		300,000	300,000	300,000	
Operating transfers out	(437,650)	(1,066,654)	(1,302,184)	(629,004)	(235,530)
Total Other Financing Sources (Uses)	(437,650)	(766,654)	(1,002,184)	(329,004)	(235,530)
Net Change in Fund Balances	(218,650)	19,913	(215,618)	238,563	(235,531)
Fund Balances:					
July 1, 2005	838,212	466,499	466,499	(371,713)	0
June 30, 2006	\$ 619,562	486,412	250,881	(133,150)	(235,531)

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

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

(2) Budget Amendments and Revisions.

The budget is adopted by the school board and filed with the taxing authority. Amendments can be made on the approval of the school board. By statute, final budget revisions must be approved on or before the date established by the Mississippi Department of Education. 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.

KEMPER COUNTY SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

KEMPER COUNTY SCHOOL DISTRICT
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2006

Federal Grantor/ Pass through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed through Mississippi Department of Education:		
Non cash assistance:		
Food donation	10.550	\$ 50,019
Fresh fruit and vegetable program	10.582	5,585
Total non-cash assistance		<u>55,604</u>
Child nutrition cluster:		
School breakfast program	10.553	227,881
National school lunch program	10.555	418,072
Summer food service program for children	10.559	26,979
Total child nutrition cluster		<u>672,932</u>
Total U.S. Department of Agriculture		<u>728,536</u>
<u>U.S. Department of Defense</u>		
Direct program:		
Reserve Officers' Training Corps	12.XXX	55,783
Total U.S. Department of Defense		<u>55,783</u>
<u>U.S. Department of Labor</u>		
Passed through Mississippi Development Authority		
WIA - youth activities	17.259	240
Total U.S. Department of Labor		<u>240</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.XXX	50,991
Total Federal Communications Commission		<u>50,991</u>

KEMPER COUNTY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006

(Continued)

Federal Grantor/ Pass through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U.S. Department of Education</u>		
Passed through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	726,468
Vocational education - basic grants to states	84.048	25,380
Safe and drug free schools and communities - state grants	84.186	18,116
Eisenhower professional development state grants	84.281	86,370
Education technology state grants	84.318	176,444
Reading first state grants	84.357	526,048
Rural education	84.358	40,680
State grants for innovative programs	84.364	4,792
Total		1,604,298
Special education cluster:		
Special education grants to states	84.027	239,272
Special education preschool grants	84.173	4,815
Total special education cluster		244,087
<u>Department of Homeland Security</u>		
Passed through Mississippi Department of Education:		
Disaster grants - public assistance (Presidentially Declared Disasters)	97.036	102,583
Total		102,583
Total passed through Mississippi Department of Education		1,950,968
Total U.S. Department of Education		1,950,968
Total for All Federal Awards		\$ 2,786,518

NOTES TO SCHEDULE

1. This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the financial statements.
2. The expenditure amounts include transfers out.
3. The pass-through entities did not assign identifying numbers to the school district.
4. The balance outstanding at June 30, 2006, of the loan received in a previous fiscal year under former CFDA #66.702 for asbestos removal was \$56,726.

KEMPER COUNTY SCHOOL DISTRICT
 Schedule of Instructional, Administrative and Other Expenditures -
 Governmental Funds
 For the Year Ended June 30, 2006

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 8,450,100	6,149,206	528,311	520,781	1,251,802
Other	2,666,407	802,267	142,163	33,886	1,688,091
Total	11,116,507	6,951,473	670,474	554,667	2,939,893
Total number of students	1,258	1,258	1,258	1,258	1,258
Cost per Student	\$ 8,837	5,526	533	441	2,337

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

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

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

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

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

KEMPER COUNTY SCHOOL DISTRICT

SPECIAL REPORTS

Windham and Lacey, PLLC

Certified Public Accountants

2708 Old Brandon Road
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Members:
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Mississippi Society of CPAs

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

Superintendent and School Board
Kemper County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Kemper County School District as of and for the year ended June 30, 2006, which collectively comprise the Kemper County School District's basic financial statements and have issued our report thereon dated July 3, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the school district's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting 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 components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in the 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. We did not note any matters involving internal control over financial reporting and its operation that we 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, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* which is described in the Schedule of Findings as Findings 06-01.

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.

Windham and Lacey, PLLC

Windham and Lacey, PLLC
July 3, 2007

Windham and Lacey, PLLC

Certified Public Accountants

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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
Kemper County School District

Compliance

We have audited the compliance of the Kemper 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 auditor's results section of the Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the school district's management. Our responsibility is to express an opinion on the school district's compliance based on our audit.

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

In our opinion, Kemper 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 Kemper 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 our audit, we considered the school district's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our 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, regulations, 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. We did not note any matters involving internal control over compliance and its operation that we 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.

Windham and Lacey, PLLC

Windham and Lacey, PLLC
July 3, 2007

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

Superintendent and School Board
Kemper County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Kemper County School District as of and for the year ended June 30, 2006, which collectively comprise Kemper County School District's basic financial statements and have issued our report thereon dated July 3, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$7,650 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 our audit of the financial statements disclosed the instance of noncompliance described in Finding 06-01 in the Schedule of Findings and Questioned Costs.

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.

Windham and Lacey, PLLC

Windham and Lacey, PLLC
July 3, 2007

KEMPER COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

KEMPER 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? | Yes |
| 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 Circular A-133? | No |
| 7. | Federal programs identified as major programs: | |
| a. | Child Nutrition Cluster
School Breakfast Program, CFDA # 10.553
National School Lunch Program, CFDA # 10.555
Summer food service program for children, CFDA # 10.559 | |
| b. | Title I - grants to local educational agencies
CFDA # 84.010 | |
| c. | Reading First state grant
CFDA # 84.357 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | No |

KEMPER COUNTY SCHOOL DISTRICT

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

10. Prior fiscal year audit findings and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____ .315(b) of OMB Circular A-133? No

Section 2: Financial Statement Findings

Material Noncompliance

06-01 Finding

Kemper County School District borrowed funds from the Sixteenth Section Principal Fund in December, 2004, but failed to make the required annual principal payment of \$25,000 during the fiscal year ended June 30, 2006, as required by statute. A transfer of \$20,000 was also made out of the Sixteenth Section Principal Fund after the principal payment was due but not paid. Section 29-3-113, Miss. Code Ann. (1972) states, in part, "No school land trust funds may be expended after the annual payment date until the payment is made on such loan."

Recommendation

The District should make payments to the Sixteenth Section Principal Fund as required by statute, and should not transfer any funds from the Sixteenth Section Principal Fund if the required principal payment is not made, as required by Section 29-3-113, Miss. Code Ann (1972).

Response

The Kemper County School District has corrected this and will, in the future, comply with Section 29-3-113, Miss Code Ann (1972).

Section 3: Federal Award Findings and Questioned Costs

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