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KOSCIUSKO PUBLIC SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2006

Charles L. Shivers, CPA
Ridgeland, MS

TABLE OF CONTENTS

FINANCIAL AUDIT REPORT 1
Independent Auditor's Report 3

MANAGEMENT'S DISCUSSION AND ANALYSIS 5

BASIC FINANCIAL STATEMENTS 13
Statement of Net Assets 15
Statement of Activities 16
Balance Sheet – Governmental Funds 17
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets 18
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds 19
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities 20
Statement of Net Assets – Fiduciary Funds 21
Notes to the Financial Statements 23

SUPPLEMENTARY INFORMATION 37
Schedule of Expenditures of Federal Awards 39
Schedule of Instructional, Administrative and Other Expenditures – Governmental Funds 40

REQUIRED SUPPLEMENTARY INFORMATION 41
Budgetary Comparison Schedule for the General Fund 43
Budgetary Comparison Schedule for the Major Special Revenue Fund – Title I A Basic Fund 44
Budgetary Comparison Schedule for the Major Special Revenue Fund – Displaced Students 45
Budgetary Comparison Schedule for the Major Special Revenue Fund – IDEA Special Education 46
Notes to the Required Supplemental Information 47

REPORTS ON INTERNAL CONTROL AND COMPLIANCE 49
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* 51
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB CircularA-133 53

REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS 55

SCHEDULE OF FINDINGS AND QUESTIONED COSTS 59

FINANCIAL AUDIT REPORT

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Ridgeland, MS 39157
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Member
AICPA
MSCPA

INDEPENDENT AUDITOR'S REPORT

Superintendent and School Board
Kosciusko Public School District

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

In my 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 Kosciusko Public 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*, I have also issued my report dated September 12, 2006, on my consideration of the Kosciusko Public School District's internal control over financial reporting and on my 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 my 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 my audit.

The Management's Discussion and Analysis on pages 7 through 11 and the Budgetary Comparison Schedules and related notes on pages 43 - 47 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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 no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Kosciusko Public 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 as required by the Mississippi State Auditor's Office. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Ridgeland, MS
September 12, 2006

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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Kosciusko School District
206 South Huntington Street
Kosciusko, Mississippi 39090

DAVID F. SISTRUNK, Ed.D., SUPERINTENDENT

KOSCIUSKO PUBLIC SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006

The discussion and analysis of the Kosciusko Public School District's financial performance provides an overall narrative review of the district's financial activities for the year ended June 30, 2006. The intent of this discussion and analysis is to look at the 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 district's financial performance.

This discussion and analysis is a new element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) *Statement No. 34 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999.

FINANCIAL HIGHLIGHTS

- Total net assets increased $1,575,888, which represents 11% of ending net assets.
- General revenues account for $12,540,771 in revenue, or 81% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for $2,906,746 or 19% of total revenues.
- The district had $14,371,629 in expenses; only $2,906,746 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of $12,540,771 were adequate to provide for these programs.
- The General Fund had $12,231,829 in revenues and $11,509,395 in expenditures. The General Fund had other financing uses of $504,878. The General Fund's fund balance increased $217,556 over the prior year.
- The Capital Projects Fund (renovation projects) had $121,926 in revenues and $33,750 in expenditures. The Capital Projects Fund had other financing sources of $500,000. The Capital Projects Fund's fund balance increased $588,176 over the prior year.
- Capital assets, net of accumulated depreciation, increased by $325,537.
- Long-term debt decreased by $417,639.

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 15 and 16 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 that 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 18 and 20, respectively.

The district maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School districts* issued by the Mississippi Office of the State Auditor. 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 17 - 19 of this report.

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. The school district's fiduciary activities are presented in separate Statements of Fiduciary Net Assets on page 21.

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 23 - 35 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 schedule has been provided for the General Fund and each additional major special revenue fund. This required supplementary information can be found on pages 43 - 47 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on page 39 of this report and a schedule of instructional, administrative and other expenditures – governmental funds can be found on page 40.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of government's financial position. In the case of the district, assets exceeded liabilities by $14,166,584 as of June 30, 2006.

By far one of the largest portions of the district's net assets ($6,556,775 or 46%) reflects its investment in capital assets (e.g., land, 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 years ended June 30:

	2006	2005
Current assets	$ 7,666,629	$ 6,853,601
Restricted assets	$ 107,652	$ 107,653
Capital assets, net	$ 11,111,775	$ 10,786,238
Total assets	$ 18,886,056	$ 17,729,492
Current liabilities	$ 81,794	$ 89,478
Long-term debt outstanding	$ 4,637,678	$ 5,055,317
Total liabilities	$ 4,719,472	$ 5,144,795
Net assets:		
Invested in capital assets, net of related debt	$ 6,556,775	$ 5,806,238
Restricted	$ 107,652	$ 107,653
Unrestricted	$ 7,502,157	$ 6,670,806
Total net assets	$ 14,166,584	$ 12,584,697

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

- The principal retirement of $425,000 of long-term debt.
- The addition of capital assets totaling $728,208.

Changes in net assets. The district's total revenues for the fiscal year ended June 30, 2006 were $15,447,517. The total cost of all programs and services was $14,371,629. The following table presents a summary of the changes in net assets for the fiscal years ended June 30:

	2006	2005
Revenues:		
Program revenues		
Child nutrition program	$ 856,925	$ 823,226
Title I program	$ 591,711	$ 573,577
Special education program	$ 475,971	$ 453,929
Other programs	$ 982,139	$ 1,287,149
Total program revenues	$ 2,906,746	$ 3,137,881

General revenues		
Taxes	$ 3,385,945	$ 3,333,983
Unrestricted state and federal grants	$ 8,799,177	$ 7,799,279
Unrestricted investment earnings	$ 248,513	$ 135,728
Other general revenues	$ 107,136	$ 46,856
Total general revenues	$ 12,540,771	$ 11,315,846
Total revenues	$ 15,447,517	$ 14,453,727
Expenses:		
Instruction	$ 8,699,640	$ 8,261,070
Support services	$ 4,590,614	$ 4,675,537
Non-instructional	$ 818,641	$ 659,427
Sixteenth section	$ 58,477	$ 40,711
Interest on long-term liabilities	$ 204,257	$ 228,651
Total expenses	$ 14,371,629	$ 13,865,396
Special Items:		
Donated assets	$ 500,000	$ 0
Increase (Decrease) in net assets	$ 1,575,888	$ 588,331

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	$ 8,699,640	$ (7,195,547)	$ 8,261,070	$ (6,995,291)
Support services	$ 4,590,614	$ (4,011,843)	$ 4,675,537	$ (3,957,083)
Non-instructional	$ 818,641	$ 5,241	$ 659,427	$ 494,221
Sixteenth section	$ 58,477	$ (58,477)	$ 40,711	$ (40,711)
Interest on long-term liabilities	$ 204,257	$ (204,257)	$ 228,651	$ (228,651)
Total expenses	$ 14,371,629	$ (11,464,883)	$ 13,865,396	$(10,727,515)

- Net cost of governmental activities ($11,464,883) was financed by general revenue, which is made up primarily of property taxes amounting to $3,385,945 and state revenues of $8,735,491.

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 $7,762,668, an increase of $820,164. $2,570,924 or 33% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the district's discretion. $4,438,914 or 57% of the fund balance is designated by the school board for capital improvements, repairs and renovations. The remaining fund balance of $752,830 or 10% is reserved to indicate that it is not available for spending because it has already been committed for specified purposes.

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 $217,556 due primarily to an increase in state funding. The fund balance of the Renovations Funds showed an increase of $95,698 and $492,478 respectively.

BUDGETARY HIGHLIGHTS

The budget is a management tool that has to be revised as necessary throughout the year.

Local revenue increased for several reasons; the ad valorem tax increase was due to an increase in new properties, tuition from individuals increased because we had an increase in the number of tuition students enrolled and revenue from interest income increased more than we anticipated.

State revenue increased because of the retirement credit that flowed back as state revenue.

Federal revenue increased because of displaced students.

Transfers of funds out increased because of monies needed in the Capital Improvements Fund.

A schedule showing the original and final budget amounts compared to the district's actual financial activity for the General Fund and the major special revenue 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 $14,997,295, including land, school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of $619,246 from the previous year. Total accumulated depreciation as of June 30, 2006 was $3,885,520 and total depreciation expense for the year was $392,674, resulting in total net assets of $11,111,775.

Additional information of the district's capital assets can be found in Note 4 on pages 29 and 30 of this report.

Debt Administration. At June 30, 2006, the district had $4,637,678 in outstanding general obligation bonds and compensated absences, of which $453,267 is due within one year.

The district maintains a AA bond rating. Additional information of the district's long-term debt can be found in Note 5 on pages 30 - 32 of this report.

CURRENT ISSUES

The Kosciusko School District is financially stable. The District is proud of the level of community support exhibited for our public schools. In addition to financial excellence, the District enjoys academic success with all 5 schools maintaining a level 5 status. The district will continue to strive to excel academically.

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

The District has just started the remodeling of the old Fred's Building to house the Central Office Staff.

The District is in the planning stages to remodel bathrooms at the Upper Elementary. The funding will come from local sources.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the superintendent's office at the following address: Kosciusko Public School District, 206 S. Huntington Street, Kosciusko, MS, 39090.

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BASIC FINANCIAL STATEMENTS

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Kosciusko Public School District
Statement of Net Assets
June 30, 2006

Exhibit A

	Primary Government Governmental Activities
Assets	
Cash and cash equivalents (Note 2)	$ 6,923,602
Investments (Note 2)	$ 234,543
Due from other governments	$ 480,759
Accrued interest receivable	$ 326
Other receivables, net	$ 10,000
Inventories and prepaid items	$ 17,399
Restricted assets (Note 2)	$ 107,652
Capital assets, net (Note 4)	$ 11,111,775
Total Assets	$ 18,886,056
Liabilities	
Accounts payable and accrued liabilities	$ 11,613
Interest payable on long-term liabilities	$ 70,181
Long-term liabilities (Due within one year) (Note 5)	
Capital related liabilities	$ 445,000
Non-capital related liabilities	$ 8,267
Long-term liabilities (Due beyond one year) (Note 5)	
Capital related liabilities	$ 4,110,000
Non-capital related liabilities	$ 74,411
Total Liabilities	$ 4,719,472
Net assets	
Investment in capital assets (net of related debt)	$ 6,556,775
Restricted net assets	
Expendable	
School-based activities	$ 209,864
Debt service	$ 438,182
Forestry improvements	$ 73,171
Unemployment benefits	$ 46,245
Non-expendable	
Sixteenth section	$ 107,652
Unrestricted	$ 6,734,695
Total Net Assets	$ 14,166,584

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

Kosciusko Public School District
Statement of Activities
For the Year Ended June 30, 2006

Exhibit B

Functions / Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Primary Government Governmental Activities
Primary Government				
Governmental Activities				
Instruction	$ 8,699,640	$ 303,676	$ 1,200,417	$ (7,195,547)
Support services	$ 4,590,614		$ 578,771	$ (4,011,843)
Non-instructional	$ 818,641	$ 267,250	$ 556,632	$ 5,241
Sixteenth section	$ 58,477			$ (58,477)
Interest and other expenses on long-term liabilities	$ 204,257			$ (204,257)
Total Governmental Activities	$ 14,371,629	$ 570,926	$ 2,335,820	$ (11,464,883)
General Revenues				
Taxes				
General purpose levies				$ 3,260,204
Debt purpose levies				$ 125,741
Unrestricted grants and contributions				
State				$ 8,735,491
Federal				$ 63,686
Unrestricted investment earnings				$ 248,513
Sixteenth section sources				$ 73,196
Other				$ 33,940
Total General Revenues				$ 12,540,771
Special items (Note 12)				$ 500,000
Total General Revenues and Special Items				$ 13,040,771
Changes in Net Assets				$ 1,575,888
Net Assets - Beginning				$ 12,584,697
Prior Period Adjustments (Note 13)				$ 5,999
Net Assets - Beginning - Restated				$ 12,590,696
Net Assets - Ending				$ 14,166,584

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

Kosciusko Public School District
Balance Sheet - Governmental Funds
June 30, 2006

Exhibit C

	Major Funds							
	General Fund	Title I-A Basic Fund	Displaced Students Grant Fund	IDEA Special Education Part B Fund	KJH, KLE, KME Rennovation Fund	Central Office Rennovation Fund	Other Governmental Funds	Total Governmental Funds
Assets								
Cash and cash equivalents (Note 2)	$ 2,064,513				$ 3,086,261	$ 1,352,653	$ 527,827	$ 7,031,254
Investments (Note 2)							$ 234,543	$ 234,543
Due from other governments	$ 170,231	$ 38,053	$ 55,473	$ 30,799			$ 186,203	$ 480,759
Accrued interest receivable	$ 326							$ 326
Due from other funds (Note 3)	$ 153,853							$ 153,853
Inventories							$ 17,399	$ 17,399
Total Assets	$ 2,388,923	$ 38,053	$ 55,473	$ 30,799	$ 3,086,261	$ 1,352,653	$ 965,972	$ 7,918,134
Liabilities and Fund Balances								
Liabilities								
Accounts payable & accrued liabilities	$ 10,464						$ 1,149	$ 11,613
Due to other funds (Note 3)		$ 38,053	$ 55,473	$ 30,799			$ 19,528	$ 143,853
Total Liabilities	$ 10,464	$ 38,053	$ 55,473	$ 30,799	$ -	$ -	$ 20,677	$ 155,466
Fund Balances								
Reserved for								
Debt service purposes							$ 508,363	$ 508,363
Permanent fund purposes							$ 107,652	$ 107,652
Unemployment benefits							$ 46,245	$ 46,245
Forestry improvements							$ 73,171	$ 73,171
Inventory							$ 17,399	$ 17,399
Unreserved								
Designated, reported in								
Capital projects funds					$ 3,086,261	$ 1,352,653		$ 4,438,914
Undesignated, reported in								
General fund	$ 2,378,459							$ 2,378,459
Special revenue funds							$ 188,275	$ 188,275
Permanent funds							$ 4,190	$ 4,190
Total Fund Balances	$ 2,378,459	$ -	$ -	$ -	$ 3,086,261	$ 1,352,653	$ 945,295	$ 7,762,668
Total Liabilities and Fund Balances	$ 2,388,923	$ 38,053	$ 55,473	$ 30,799	$ 3,086,261	$ 1,352,653	$ 965,972	$ 7,918,134

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

Kosciusko Public School District
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2006

Exhibit C-1

	Amount
Total fund balance - governmental funds	$ 7,762,668
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets are used in governmental activities and are not financial resources, therefore the assets are not reported in the governmental funds, net of accumulated depreciation of $3,885,520. (Note 4)	$ 11,111,775
Long-term liabilities are not due and payable in the current period, therefore the long-term liabilities are not reported in the governmental funds. (Note 5)	$ (4,637,678)
Accrued interest payable on long-term liabilities is not due and payable in the current period, therefore it is not reported in the governmental funds.	$ (70,181)
Total net assets - governmental activities	$ 14,166,584

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

Kosciusko Public School District
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2006

Exhibit D

	Major Funds							
	General Fund	Title I-A Basic Fund	Displaced Students Grant Fund	IDEA Special Education Part B Fund	KJH, KLE, KME Rennovation Fund	Central Office Rennovation Fund	Other Governmental Funds	Total Governmental Funds
Revenues								
Local sources	$ 3,685,716	$ 36		$ 23	$ 95,698	$ 26,228	$ 405,309	$ 4,213,010
State sources	$ 8,482,427						$ 542,658	$ 9,025,085
Federal sources	$ 63,686	$ 591,675	$ 101,660	$ 475,948			$ 876,941	$ 2,109,910
Sixteenth section sources							$ 85,334	$ 85,334
Total Revenues	$ 12,231,829	$ 591,711	$ 101,660	$ 475,971	$ 95,698	$ 26,228	$ 1,910,242	$ 15,433,339
Expenditures								
Instruction	$ 7,274,663	$ 383,088	$ 101,660	$ 197,969			$ 508,015	$ 8,465,395
Support services	$ 4,092,939	$ 183,703		$ 277,986			$ 88,641	$ 4,643,269
Noninstructional services	$ 1,617	$ 19,384					$ 761,413	$ 782,414
Sixteenth section							$ 58,477	$ 58,477
Facilities acquisition and construction						$ 33,750		$ 33,750
Debt service								
Principal (Note 5)	$ 72,859						$ 352,141	$ 425,000
Interest	$ 66,817						$ 150,277	$ 217,094
Other	$ 500						$ 1,454	$ 1,954
Total Expenditures	$ 11,509,395	$ 586,175	$ 101,660	$ 475,955	$ -	$ 33,750	$ 1,920,418	$ 14,627,353
Excess (Deficiency) of Revenues Over Expenditures	$ 722,434	$ 5,536	$ -	$ 16	$ 95,698	$ (7,522)	$ (10,176)	$ 805,986
Other Financing Sources (Uses)								
Insurances loss recoveries	$ 12,194							$ 12,194
Sale of transportation equipment	$ 1,880							$ 1,880
Sale of other property	$ 104							$ 104
Operating transfers in (Note 3)	$ 239,354					$ 500,000	$ 85,473	$ 824,827
Operating transfers out (Note 3)	$ (758,410)	$ (5,536)		$ (23)			$ (60,858)	$ (824,827)
Total Other Financing Sources (Uses)	$ (504,878)	$ (5,536)	$ -	$ (23)	$ -	$ 500,000	$ 24,615	$ 14,178
Net Change in Fund Balances	$ 217,556	$ -	$ -	$ (7)	$ 95,698	$ 492,478	$ 14,439	$ 820,164
Fund Balances								
July 1, 2005	$ 2,160,903	$ -	$ -	$ 7	$ 2,990,563	$ 860,175	$ 927,100	$ 6,938,748
Increase in reserve for inventory							$ 3,756	$ 3,756
June 30, 2006	$ 2,378,459	$ -	$ -	$ -	$ 3,086,261	$ 1,352,653	$ 945,295	$ 7,762,668

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

Kosciusko Public 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

		Amount
Net change in fund balance - governmental funds	$	820,164
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital assets as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchased amounted to $228,208 , donated assets amounted to $500,000 and the depreciation expense amounted to $392,674. (Note 4)	$	335,534
Payment on the principal on long-term liabilities is reported as expenditures in the governmental funds, but the payment reduces long-term liabilities in the statement of activities. (Note 5)	$	425,000
Expenses associated with changes in the compensated absences liability is reported in the statement of activities, but is not reported in the governmental funds.	$	(7,361)
The sale and/or disposal of capital assets is reported as other financing sources in the governmental funds, but is reported as a reduction of capital assets, net of accumulated depreciation, along with the loss on the sale/disposal of capital assets on the statement of activities.	$	(15,996)
Accrued interest payable is reported in the statement of activities, but is not reported in the governmental funds.	$	14,791
The governmental funds reported an increase in reserve for inventory while the transaction is not reported in the statement of activities.	$	3,756
Changes in net assets of governmental activities	$	1,575,888

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

Kosciusko Public School District
Statement of Net Assets - Fiduciary Funds
June 30, 2006

Exhibit E

	Agency Funds
Assets	
Cash and cash equivalents (Note 2)	$ 607,241
Total Assets	$ 607,241
Liabilities	
Accounts payable and accrued liabilities	$ 560,728
Due to other funds (Note 3)	$ 10,000
Due to student clubs	$ 36,188
Other payables	$ 325
Total Liabilities	$ 607,241

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

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(1) Summary of Significant Accounting Policies.

The accompanying basic 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 an "other stand-alone government." The school district is a related organization of, but not a component unit of, the city of Kosciusko since the governing authority of the city selects a majority of the school district's board but does not have financial accountability for the school district.

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 reporting government 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 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. It also includes grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that 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 reporting entity 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/expenses. 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. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. 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 so 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 Fund – This special revenue fund is financed with federal funds and is used to account for the activities associated with educationally deprived children.

Displaced Students Grant Fund – This special revenue fund is financed with federal funds and is used to account for activities associated with students that were displaced as a result of Hurricane Katrina.

Special Ed Part B Fund – This special revenue fund is financed with federal funds and is used to account for the activities associated with providing special education students with appropriate services.

KJH, KLE, KME Renovation Fund – This capital project fund is financed with local funds and is used to account for repairs and renovations of district school buildings in accordance with the district's long range capital project plan.

Central Office Renovation Fund – This capital project fund is financed with local funds and is used to account for repairs and renovations of a recently acquired building (the planned use will be for a central administration office).

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

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 surplus funds in only those investments authorized by state statues. Generally, authorized investments consist of obligations guaranteed or back by the US government or government agencies. 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.

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.

I. Capital Assets.

Capital asset acquisition and construction are reflected as expenditures in the governmental fund statements and are reported as capital assets in the government-wide 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.

		Capitalization Policy	Estimated Useful Life
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 4 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. Long-term liabilities should not be reported as liabilities in governmental funds, but should be reported in the governmental activities column in the government-wide statement of net assets. See Note 5 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.

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.

Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 3 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:

a. 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.

b. 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.

c. 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 further split between designated and undesignated.

The unreserved/designated fund balance reported in the Capital Projects Funds represents that portion of the fund balance that has been designated by the school district's governing board for certain approved capital improvements, repairs and renovations.

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 debt service purposes - An account that represents a portion of the fund balance that is legally restricted for the retirement of school district debt.

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

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

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

Unreserved - designated, reported in capital projects funds - An account that represents a portion of the unreserved fund balance that the school board has specifically obligated for future repairs, renovations and construction projects of district buildings and facilities.

M. Property Taxes.

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

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.

(2) Cash and Cash Equivalents and Investments.

The district follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:
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 school district deposits in financial institutions are held in the name of the Mississippi 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 school district'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 (e), Miss. Code Ann. (1972). That section permits the following types of investments: (a) certificates of deposit and interest bearing accounts; (b) direct US Treasury obligations; (c) US Government agencies, US Government instrumentalities or US Government sponsored enterprise obligations; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of those securities enumerated in (b) and (c) above; (e) direct obligations of the US in open-end or closed-end of any management type investment company. 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 $7,031,254 and $607,241, respectively. The carrying amount of deposits reported in the government-wide financial statements was: Cash and Cash Equivalents - $6,923,602 and Restricted Assets - $107,652. The Restricted Assets represents 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 $8,070,201.

Custodial Credit Risk – Deposits. Custodial risk is the risk that in the event of a depository failure, the school district deposits may not be returned to it. The school district does not have a formal policy for custodial credit risk. However, state law permits the Mississippi State Treasurer's office to manage that risk on behalf of the school district. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. By signed agreement the Mississippi State Treasurer's office is acting on behalf of the school district.

Investments.

The school district had the following investments at year end:

Investment	Maturities		Fair Value
Money Market Account (US Treasury Notes/Bills)	Less than one year	$	234,543

Investments are reported at fair value which is based on quoted market price.

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

(3) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

	Due From	Due To
Major funds:		
General fund	$ 153,853	
Title I-A basic fund		$ 38,053
Displaced students grant fund		$ 55,473
IDEA, special education part B fund		$ 30,799
Non-major Funds		$ 19,528
Fiduciary Funds		$ 10,000
Total funds	$ 153,853	$ 153,853

The purpose of the interfund receivables and payables are to close-out federal program funds at year end and to provide a nominal amount of surplus funds in the Fiduciary Funds. All interfund receivables and payables are expected to be repaid within one year.

B. Transfers In/Out.

	Transfer In	Transfers Out
Major funds:		
General fund	$ 239,354	$ 758,410
Title I-A basic fund		$ 5,537
IDEA, special education part B fund	$	$ 23
Central office renovation fund	$ 500,000	
Non-major Funds	$ 85,473	$ 60,857
Total funds	$ 824,827	$ 824,827

The purposes of interfund transfers are to transfer federal program indirect cost, to close-out federal program funds at year end and to finance a locally fund capital project. These transfers are consistent with the activities of the fund making the transfer.

(4) Capital Assets.

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

	Balance 7-1-2005	Additions	Retirements	Adjustments	Balance 6-30-2006
Non-depreciable capital assets:					
Land	$ 239,086				$ 239,086
Total non-depreciable capital assets	$ 239,086	$ 0	$ 0		$ 239,086
Depreciable capital assets:					
Buildings	$ 12,433,895	$ 500,000			$ 12,933,895

	Balance 7-1-2005	Additions	Retirements	Adjustments	Balance 6-30-2006
Mobile equipment	$ 1,400,313	$ 167,413	$ (114,961)	$ 5,999	$ 1,458,764
Furniture and equipment	$ 304,755	$ 60,795			$ 365,550
Total depreciable capital assets	$ 14,138,963	$ 728,208	$ (114,961)	$ 5,999	$ 14,758,209
Less accumulated depreciation					
Buildings	$ 2,335,588	$ 259,058			$ 2,594,646
Mobile equipment	$ 1,001,092	$ 92,533	$ (98,965)		$ 994,660
Furniture and equipment	$ 255,131	$ 41,083			$ 296,214
Total accumulated depreciation	$ 3,591,811	$ 392,674	$ (98,965)		$ 3,885,520
Total depreciable capital assets, net	$ 10,547,152	$ 335,534	$ (15,996)	$ 5,999	$ 10,872,689
Governmental activities capital assets, net	$ 10,786,238	$ 335,534	$ (15,996)	$ 5,999	$ 11,111,775

The $500,000 addition to buildings was a donated building. See Special Items at Note 12. The adjustment is the result of an asset included in the current year that was erroneously deleted in a prior year. See Prior Period Adjustment at Note 13.

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	$ 234,245
Support services	$ 152,196
Non-Instructional Services	$ 6,233
Total depreciation expense	$ 392,674

(5) 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	Balance 6-30-2006	Amounts due within one year
A.	General obligation bonds payable	$ 1,510,000		$ 140,000	$ 1,370,000	$ 150,000
B.	Limited obligation bonds payable	$ 2,860,000		$ 170,000	$ 2,690,000	$ 180,000
C.	Three mill notes payable	$ 610,000		$ 115,000	$ 495,000	$ 115,000
D.	Compensated absences payable	$ 75,317	$ 7,361		$ 82,678	$ 8,267
	Total	$ 5,055,317	$ 7,361	$ 425,000	$ 4,637,678	$ 453,267

A. General obligation bonds payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General obligation bonds, Series 2002, refunding	4 – 4.75	2-28-02	3-15-14	$ 2,050,000	$ 1,370,000

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

Year Ending June 30	Principal	Interest	Total
2007	$ 150,000	$ 60,716	$ 210,716
2008	$ 150,000	$ 54,716	$ 204,716
2009	$ 160,000	$ 48,716	$ 208,716
20010	$ 165,000	$ 41,838	$ 206,838
2011	$ 175,000	$ 34,576	$ 209,576
2012 - 2014	$ 570,000	$ 54,056	$ 624,056
Total	$ 1,370,000	$ 294,618	$ 1,664,618

This debt will be retired from the General Fund and the EEF School Building and Bus Fund (Other Governmental Funds).

The amount of bonded indebtedness that can be incurred by the school district is limited by state statute. Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in state statutes, have been met. As of June 30, 2006, the amount of outstanding bonded indebtedness was equal to 1.9% of property assessments as of October 1, 2005.

B. 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	4.30-6.10	3-1-98	8-1-17	$ 3,500,000	$ 2,690,000

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

Year Ending June 30	Principal	Interest	Total
2007	$ 180,000	$ 116,844	$ 296,844
2008	$ 190,000	$ 108,889	$ 298,889
2009	$ 200,000	$ 100,404	$ 300,404
2010	$ 210,000	$ 91,384	$ 301,384
2011	$ 220,000	$ 81,814	$ 301,814
2012 - 2016	$ 1,295,000	$ 243,061	$ 1,538,061
2017 - 2018	$ 395,000	$ 13,161	$ 408,161
Total	$ 2,690,000	$ 755,557	$ 3,445,557

This debt will be retired from the MAEP Debt Retirement (Other Governmental Funds).

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.

C. Three mill notes payable.

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

Year Ending June 30	Principal	Interest	Total
2007	$ 115,000	$ 19,630	$ 134,630
2008	$ 120,000	$ 14,400	$ 134,400
2009	$ 125,000	$ 8,887	$ 133,887
2010	$ 135,000	$ 3,037	$ 138,037
Total	$ 495,000	$ 45,954	$ 540,954

This debt will be retired from the Three Mill Note Fund (Other Governmental Funds).

D. 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).

(6) 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 $823,349, $774,099 and $719,449, respectively, which equaled the required contributions for each year.

(7) Other Commitments.

Operating leases:

The school district has an operating lease for five Cannon IR3300 digital duplicators and five Cannon 3570 copiers. Lease expenditures for the year ended June 30, 2006, amounted to $14,790. Future lease payments for this lease are as follows:

Year Ending June 30		Amount
2007	$	14,880
2008	$	14,880
2009	$	14,880
2010	$	3,600
Total	$	48,240

(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.

Year Ending June 30		Amount
2007	$	39,252
2008	$	35,642
2009	$	35,190
2010	$	36,069
2011	$	31,284
2012 - 2016	$	150,440
2017 - 2021	$	151,128
2022 - 2026	$	112,279
2027 - 2031	$	66,705
Thereafter	$	170,780
Total	$	828,769

(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. 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.

(10) Alternative School Consortium.

The school district entered into an Alternative School Agreement dated September 14, 1993 creating the Kosciusko-Attala County Alternative Education Cooperative. 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 Kosciusko School District and the Attala 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 Kosciusko School District has been designated as the lead school district for the Kosciusko-Attala County Alternative Education Cooperative, and the operations of the consortium are included in its financial statements. The following Statement of Revenues, Expenditures and Changes in Fund Balance is presented to detail the financial activity of the Kosciusko-Attala County Alternative Education Cooperative.

Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2006

Revenues	
Local Sources	
Tuition From Attala County School District	$ 66,887
Interest	$ 8,605
Total Local Sources	$ 75,492
State Sources	$ 97,452
Total Revenues	$ 172,944
Expenditures	
Salaries	$ 97,246
Employee Benefits	$ 25,004
Purchased Property Services	$ 9,309
Supplies	$ 1,030
Property	$ 886
Total Expenditures	$ 133,475
Excess of Revenues Over (Under) Expenditures	$ 39,469
Fund Balance:	
July 1, 2005	$ 219,616
June 30, 2006	$ 259,085

(11) Vocational School Consortium.

The school district entered into a Vocational Education Agreement dated February 14, 1978 creating the Vocational-Technical Training Center. This center was created pursuant to the provisions of Section 37-31-73, Miss. Code Ann. (1972) and was approved by the Mississippi Department of Education. The center includes the Kosciusko School District and the Attala County School District.

Section 37-13-92 (6), Miss. Code Ann. (1972), authorizes the above noted entities to enter into an agreement for the construction or operation of a regional vocational education center. The agreement designates the fiscal agent and provides the method of financing the operation for the center, the manner in which the center is to be controlled and staffed and sets detail procedures for student admission and the transportation services for those students.

The Attala County School District has been designated as the fiscal agent for the Vocational-Technical Training Center and the operations of the center are included in its financial statements.

(12) Special Items.

The school district received a donated building from the Mississippi National Guard with a fair market value of $500,000.

(13) Prior Period Adjustments.

Exhibit B	Amount	Explanation
Primary Government	$ 5,999	Adjustments made to capital assets (see Note 4)
Total Exhibit B	$ 5,999	

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SUPPLEMENTARY INFORMATION

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Kosciusko Public 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 No.	Federal Expenditures
U.S. Department of Agriculture		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	$ 54,249
Child nutrition cluster:		
School breakfast program	10.553	$ 152,674
National school lunch program	10.555	$ 650,875
Total child nutrition cluster		$ 803,549
Total U.S. Department of Agriculture		$ 857,798
U.S. Department of Education		
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	$ 591,710
Safe and drug-free schools and communities - state grants	84.186	$ 9,313
State grants for innovative programs	84.298	$ 6,492
Rural education	84.358	$ 65,095
Improving teacher quality – state grants	84.367	$ 162,845
Hurricane education recovery act programs - emergency impact aid	84.938c	$ 124,088
Total		$ 959,543
Special education cluster:		
Special education - grants to states	84.027	$ 475,954
Special education - preschool grants	84.173	$ 17,759
Total		$ 493,713
Total passed-through Mississippi Department of Education		$ 1,453,256
Total U.S. Department of Education		$ 1,453,256
Total for All Federal Awards		$ 2,311,054

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 basic financial statements.
2. The expenditure amounts include transfers out.
3. The pass-through entities did not assign identifying numbers to the school district.

Kosciusko Public 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 Administrative	School Administration	Other
Salaries and fringe benefits	$ 11,190,589	$ 8,980,333	$ 431,264	$ 777,642	$ 1,001,350
Other	$ 3,436,764	$ 975,995	$ 96,881	$ 12,764	$ 2,351,124
Total	$ 14,627,353	$ 9,956,328	$ 528,145	$ 790,406	$ 3,352,474
Total number of students	2,060				
Cost per student	$ 7,101	$ 4,833	$ 256	$ 384	$ 1,627

Notes to the schedule.

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

General Administration - includes expenditures for the following functions: Support Services - General Administration and Support Services - Business

School Administration - includes expenditures for the following function: Support Services - School Administration

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

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

REQUIRED SUPPLEMENTARY INFORMATION

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Kosciusko Public School District
Budgetary Comparison Schedule for the General Fund
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variances Positive (Negative)	
	Original	Final	(GAAP Basis)	Original to Final	Final to Actual
Revenues					
Local sources	$ 3,576,250	$ 3,531,650	$ 3,685,716	$ 44,600	$ (154,066)
State sources	$ 8,390,753	$ 8,359,501	$ 8,482,427	$ 31,252	$ (122,926)
Federal sources	$ 3,000	$ 3,000	$ 63,686	$ -	$ (60,686)
Total Revenues	$ 11,970,003	$ 11,894,151	$ 12,231,829	$ 75,852	$ (337,678)
Expenditures					
Instruction	$ 7,523,696	$ 7,690,775	$ 7,274,663	$ (167,079)	$ 416,112
Support services	$ 4,457,787	$ 4,643,935	$ 4,092,939	$ (186,148)	$ 550,996
Noninstructional services	$ 1,725	$ 1,730	$ 1,617	$ (5)	$ 113
Debt service					
Principal	$ 139,676	$ 139,676	$ 72,859	$ -	$ 66,817
Interest	$ -	$ -	$ 66,817	$ -	$ (66,817)
Other	$ 1,000	$ 1,000	$ 500	$ -	$ 500
Total Expenditures	$ 12,123,884	$ 12,477,116	$ 11,509,395	$ (353,232)	$ 967,721
Excess (Deficiency) of Revenues Over Expenditures	$ (153,881)	$ (582,965)	$ 722,434	$ 429,084	$ (1,305,399)
Other Financing Sources (Uses)					
Insurance loss recoveries	$ -	$ -	$ 12,194	$ -	$ (12,194)
Sale of transportation equipment	$ -	$ -	$ 1,880	$ -	$ (1,880)
Sale of other property	$ -	$ -	$ 104	$ -	$ (104)
Operating transfers in	$ 168,615	$ 293,798	$ 239,354	$ (125,183)	$ 54,444
Operating transfers out	$ (213,843)	$ (821,060)	$ (758,410)	$ 607,217	$ (62,650)
Total Other Financing Sources (Uses)	$ (45,228)	$ (527,262)	$ (504,878)	$ 482,034	$ (22,384)
			$ -		
Net Change in Fund Balances	$ (199,109)	$ (1,110,227)	$ 217,556	$ 911,118	$ (1,327,783)
Fund Balances					
July 1, 2005	$ 1,521,526	$ 2,160,903	$ 2,160,903	$ (639,377)	$ -
June 30, 2006	$ 1,322,417	$ 1,050,676	$ 2,378,459	$ 271,741	$ (1,327,783)

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

Kosciusko Public School District
Budgetary Comparison Schedule for the Major Special Revenue Fund - Title I-A Basic Fund
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variances Positive (Negative)	
	Original	Final	(GAAP Basis)	Original to Final	Final to Actual
Revenues					
Local sources	$ -	$ -	$ 36	$ -	$ (36)
State sources	$ -	$ -	$ -	$ -	$ -
Federal sources	$ 713,652	$ 666,178	$ 591,675	$ 47,474	$ 74,503
Total Revenues	$ 713,652	$ 666,178	$ 591,711	$ 47,474	$ 74,467
Expenditures					
Instruction	$ 411,618	$ 411,106	$ 383,088	$ 512	$ 28,018
Support services	$ 278,099	$ 225,112	$ 183,703	$ 52,987	$ 41,409
Noninstructional services	$ 18,435	$ 24,460	$ 19,384	$ (6,025)	$ 5,076
Total Expenditures	$ 708,152	$ 660,678	$ 586,175	$ 47,474	$ 74,503
Excess (Deficiency) of Revenues Over Expenditures	$ 5,500	$ 5,500	$ 5,536	$ -	$ (36)
Other Financing Sources (Uses)					
Operating transfers out	$ (5,500)	$ (5,500)	$ (5,536)	$ -	$ 36
Total Other Financing Sources (Uses)	$ (5,500)	$ (5,500)	$ (5,536)	$ -	$ 36
Net Change in Fund Balances	$ -	$ -	$ -	$ -	$ -
Fund Balances					
July 1, 2005	$ -	$ -	$ -	$ -	$ -
June 30, 2006	$ -	$ -	$ -	$ -	$ -

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

Kosciusko Public School District
Budgetary Comparison Schedule for the Major Special Revenue Fund - Displaced Students Fund
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variances Positive (Negative)	
	Original	Final	(GAAP Basis)	Original to Final	Final to Actual
Revenues					
Federal sources	$ -	$ 101,660	$ 101,660	$ (101,660)	$ -
Total Revenues	$ -	$ 101,660	$ 101,660	$ (101,660)	$ -
Expenditures					
Instruction	$ -	$ 101,660	$ 101,660	$ (101,660)	$ -
Total Expenditures	$ -	$ 101,660	$ 101,660	$ (101,660)	$ -
Excess (Deficiency) of Revenues Over Expenditures	$ -	$ -	$ -	$ -	$ -
Total Other Financing Sources (Uses)	$ -	$ -	$ -	$ -	$ -
Net Change in Fund Balances	$ -	$ -	$ -	$ -	$ -
Fund Balances					
July 1, 2005	$ -	$ -	$ -	$ -	$ -
June 30, 2006	$ -	$ -	$ -	$ -	$ -

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

Kosciusko Public School District
Budgetary Comparison Schedule for the Major Special Revenue Fund - IDEA Special Education, Part B Fund
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variances Positive (Negative)	
	Original	Final	(GAAP Basis)	Original to Final	Final to Actual
Revenues					
Local sources	$ -	$ -	$ 23	$ -	$ (23)
Federal sources	$ 559,077	$ 556,577	$ 475,948	$ 2,500	$ 80,629
Total Revenues	$ 559,077	$ 556,577	$ 475,971	$ 2,500	$ 80,606
Expenditures					
Instruction	$ 242,464	$ 246,449	$ 197,969	$ (3,985)	$ 48,480
Support services	$ 316,613	$ 310,128	$ 277,986	$ 6,485	$ 32,142
Total Expenditures	$ 559,077	$ 556,577	$ 475,955	$ 2,500	$ 80,622
Excess (Deficiency) of Revenues Over Expenditures	$ -	$ -	$ 16	$ -	$ (16)
Other Financing Sources (Uses)					
Operating transfers out	$ -	$ -	$ (23)	$ -	$ 23
Total Other Financing Sources (Uses)	$ -	$ -	$ (23)	$ -	$ 23
Net Change in Fund Balances	$ -	$ -	$ (7)	$ -	$ 7
Fund Balances					
July 1, 2005	$ -	$ -	$ 7	$ -	$ (7)
June 30, 2006	$ -	$ -	$ -	$ -	$ -

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

Kosciusko Public School District
Notes to the Required Supplemental Information
For the Year Ended June 30, 2006

(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 a date established by the Mississippi Board of Education (generally on or about September 1 of the following fiscal year). A budgetary comparison is presented for the general fund and each major special revenue fund on the same basis of accounting as the budget which is consistent with accounting principles generally accepted in the United States.

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REPORTS ON INTERNAL CONTROLS AND COMPLIANCE

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Charles L. Shivers, CPA

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

Superintendent and School Board
Kosciusko Public School District

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Kosciusko Public School District as of and for the year ended June 30, 2006, which collectively comprise the district's basic financial statements and have issued my report thereon dated September 12, 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 basic financial statements and not to provide an opinion 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 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 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the district's 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.

Ridgeland, MS
September 12, 2006

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

Superintendent and School Board
Kosciusko Public School District

Compliance

I have audited the compliance of the Kosciusko Public 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 district's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the school district's management. 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 that 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, Kosciusko Public 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 Kosciusko Public School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing 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.

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, 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. I noted no matters involving internal control over compliance and its operation that I consider to be material weaknesses.

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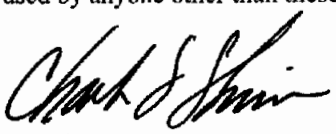
This report is intended solely for the information and use of the district's school board and management, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Ridgeland, MS
September 12, 2006

REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

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REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Superintendent and School Board
Kosciusko Public School District

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Kosciusko Public School District as of and for the year ended June 30, 2006, which collectively comprise Kosciusko Public School District's basic financial statements and have issued my report thereon dated September 12, 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(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, I have also performed procedures to test compliance with certain other 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 $ -0- 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 basic financial statements did not disclose any instances of noncompliance with 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.

Ridgeland, MS
September 12, 2006

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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Kosciusko Public 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 basic financial statements:	Unqualified
2.	Material noncompliance relating to the basic 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?	None Reported

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?	None Reported
6.	Any audit finding(s) reported as required by section ___.510(a) of Circular A-133?	No
7.	Federal program identified as major program:	
	a. Special education cluster	
	CFDA #: 84.027	
	CFDA#: 84.173	
	b. Hurricane education recovery act programs – emergency impact aid	
	CFDA #: 84.938c	
8.	The dollar threshold used to distinguish between type A and type B programs:	$300,000
9.	Auditee qualified as a low-risk auditee?	Yes
10	Prior fiscal year audit findings and questioned costs 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

The results of my tests did not disclose any findings and questioned costs related to the financial statements.

Section 3: Federal Award Findings and Questioned Costs

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

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