

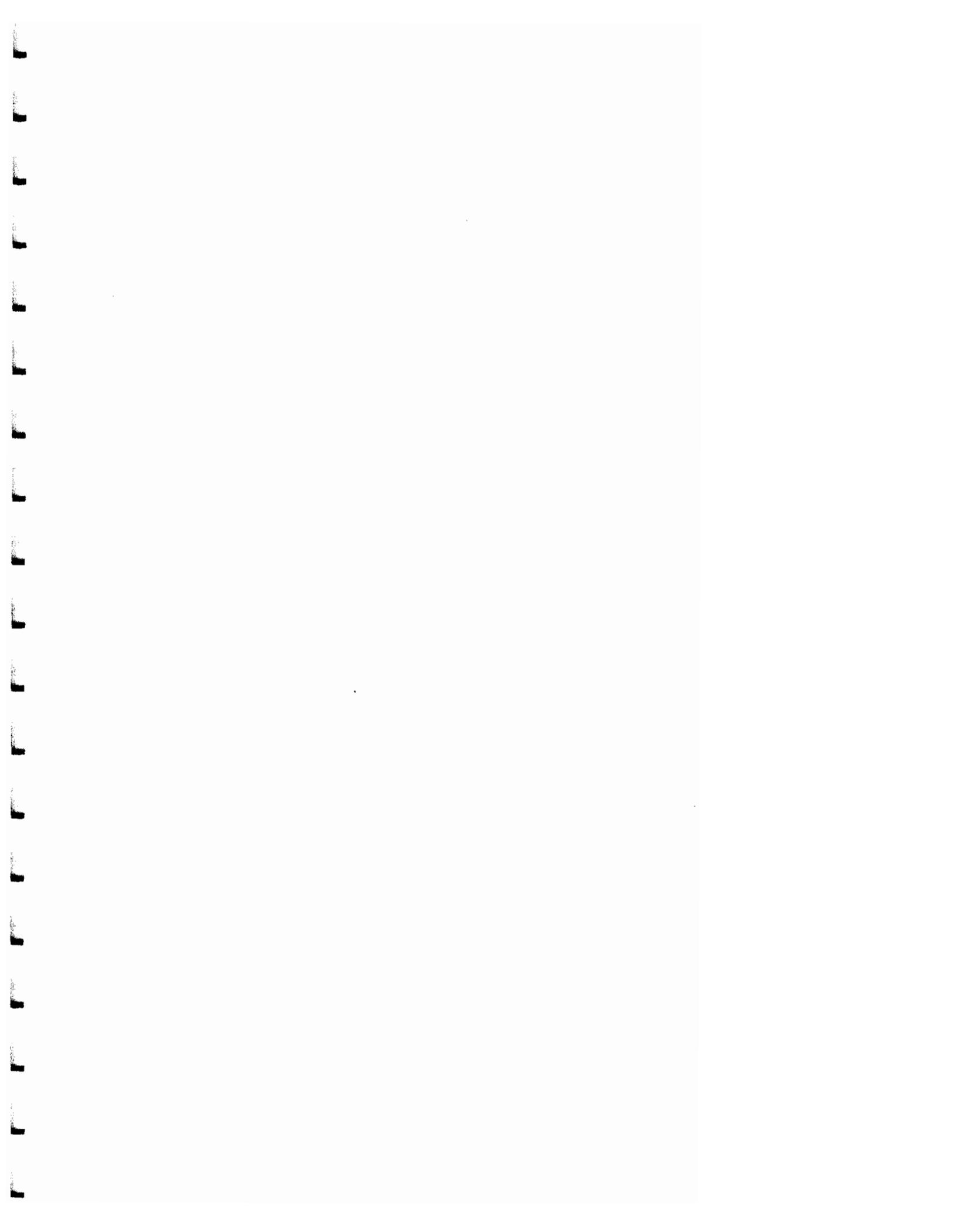


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**NATCHEZ-ADAMS SCHOOL DISTRICT
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**



SILAS SIMMONS LLP
CERTIFIED PUBLIC ACCOUNTANTS *and* ADVISORS



NATCHEZ-ADAMS SCHOOL DISTRICT

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NATCHEZ-ADAMS SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

NATCHEZ-ADAMS SCHOOL DISTRICT



SILAS SIMMONS LLP

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INDEPENDENT AUDITOR'S REPORT
ON
THE BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION www.silasimmons.com

Superintendent and School Board
Natchez-Adams School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Natchez-Adams School District as of and for the year ended June 30, 2006, which collectively comprise the Natchez-Adams School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Natchez-Adams 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 Natchez-Adams 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 November 27, 2006, on our consideration of the Natchez-Adams School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on Pages 3 through 9 and the Budgetary Comparison Schedule and corresponding notes on Pages 32 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 Natchez-Adams 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 Nonprofit Organizations*, and is not a required part of the basic financial statements. In addition, the Schedule of Instructional, Administrative, and Other Expenditures - General Funds is presented for purposes of additional analysis. 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.

Silas Simmons, CPA

Natchez, Mississippi
November 27, 2006

NATCHEZ-ADAMS SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

NATCHEZ-ADAMS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006

The discussion and analysis of Natchez-Adams 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 the School District's financial statements, notes to financial statements, and any accompanying materials. To the extent this discussion contains any forward-looking statements of the School District's plans, objectives, expectations, and prospects, the actual results could differ materially from those discussed herein.

This discussion and analysis is 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. Certain comparative information between the current year and the prior year is required to be presented.

FINANCIAL HIGHLIGHTS

- ❑ Total net assets increased \$1,345,569, which represents 4.2% increase from fiscal year 2005.
- ❑ The School District had \$36,853,833 in expenses; only \$10,588,276, or 28%, of these expenses was offset by program specific charges for services, grants, and contributions. General revenues of \$27,618,485 were adequate to provide for these programs.
- ❑ Among major funds, the General Fund had \$26,082,856 in revenues, and \$24,257,657 in expenditures. The General Fund's fund balance increased \$488,298. This was primarily a result of using federal funds from the Hurricane Education Recovery Act for salaries which normally would have been financed from the General Funds.
- ❑ Capital assets, net of accumulated depreciation, decreased by \$531,956.
- ❑ The School District reduced its outstanding long-term debt by \$874,483 or 7.4%.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the School District's basic financial statements. The School 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 School 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 School 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 School District is improving or deteriorating.

The statement of activities presents information showing how the School 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 School District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the School District include instruction, support services, noninstructional, sixteenth section, and interest on long-term liabilities.

The government-wide financial statements can be found on Pages 10 and 11 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 School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the School 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 School 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 School 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 13 and 15, respectively.

The School 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 nonmajor funds are combined together and presented in these reports as other governmental funds.

The basic governmental fund financial statements can be found on Pages 12 - 15 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the School 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 Assets and Liabilities on Page 16.

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 17 – 32 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 School District's budget process.

The School District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each major fund. This required supplementary information can be found on Pages 33 – 36 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Circular A-133 and can be found on Pages 37 – 39 of this report.

On Page 40 can be found a schedule to provide a clearer picture as to the amounts spent on instruction, administrative, and other types of expenditures per pupil.

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 School District, assets exceeded liabilities by \$31,955,915 as of June 30, 2006.

By far, the largest portion of the School District's net assets is the restricted assets of Sixteenth Section Principal. These assets comprise 52%, or \$16,481,121 of the School District's net assets. Only the interest derived from these funds is expendable. The Board of Education has the authority to borrow these funds at a rate of four percent (4%) per annum and for a term not exceeding twenty (20) years. Twenty percent (20%), or \$6,265,940 of the School District's net assets reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment, leased property under capital leases, and construction in progress), less any related debt used to acquire those assets that is still outstanding. The School District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending.

The School 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 School District's net assets for the fiscal years ended June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current assets	\$ 28,826,471	\$ 27,395,811	\$ 1,430,660	0.05%
Capital assets, net	<u>16,890,940</u>	<u>17,422,896</u>	<u>(531,956)</u>	<u>(0.03)%</u>
Total assets	<u>\$ 45,717,411</u>	<u>\$ 44,818,707</u>	<u>\$ 898,704</u>	<u>0.02%</u>
Current liabilities	\$ 3,555,388	\$ 3,374,964	\$ 180,424	0.05%
Long-term debt outstanding	<u>10,206,108</u>	<u>10,833,398</u>	<u>(627,290)</u>	<u>(0.06)%</u>
Total liabilities	<u>\$ 13,761,496</u>	<u>\$ 14,208,362</u>	<u>\$ (446,866)</u>	<u>(0.03)%</u>

	<u>2006</u>	<u>2005</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Net assets:				
Invested in capital assets, net of related debt	\$ 6,265,940	\$ 5,910,704	\$ 355,236	0.06%
Restricted	17,633,463	17,405,756	227,707	0.01%
Unrestricted	<u>8,056,512</u>	<u>7,293,885</u>	<u>762,627</u>	<u>0.10%</u>
Total net assets	<u>\$ 31,955,915</u>	<u>\$ 30,610,345</u>	<u>\$ 1,345,570</u>	<u>0.04%</u>

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

- The principal retirement of \$874,483 of long-term debt.
- The addition of \$58,313 in capital assets.
- The scrapping of capital assets for a net loss of \$1,015.
- Annual depreciation expense of \$589,254.

Changes in net assets. The School District's total revenues for the fiscal year ended June 30, 2006 were \$38,206,761. The total cost of all programs and services was \$36,853,833. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Revenues:				
Program revenues				
Charges for service	\$ 504,989	\$ 413,561	\$ 91,428	22.11%
Operating grants and contributions	10,083,287	7,804,941	2,278,346	29.19%
General revenues				
Property tax	9,133,261	8,628,736	504,525	5.85%
Grants and contributions not restricted	17,068,052	16,542,346	525,706	3.18%
Other	<u>1,417,172</u>	<u>965,459</u>	<u>451,713</u>	<u>46.79%</u>
Total revenues	<u>\$ 38,206,761</u>	<u>\$ 34,355,043</u>	<u>\$ 3,851,718</u>	<u>11.21%</u>
Expenses:				
Instruction	\$ 20,740,313	\$ 19,634,611	\$ 1,105,702	5.63%
Support services	12,870,745	11,729,110	1,141,635	9.73%
Noninstructional	2,685,796	2,209,185	476,611	21.57%
Sixteenth section	3,468	16,814	(13,346)	(79.37)%
Interest on long-term liabilities	<u>553,511</u>	<u>602,728</u>	<u>(49,217)</u>	<u>(8.17)%</u>
Total expenses	<u>\$ 36,853,833</u>	<u>\$ 34,192,448</u>	<u>\$ 2,661,385</u>	<u>7.78%</u>
Increase in net assets	<u>\$ 1,352,928</u>	<u>\$ 162,595</u>	<u>\$ 1,190,333</u>	<u>732.08%</u>

The following are explanations of significant changes in revenues and expenses:

- The District received \$2,138,905 in program revenues from Red Cross, FEMA, and the Hurricane Education Recovery Act.
- Two new programs, Title I-Reading First and Carol M. White PE Grant, began in fiscal year 2006 and received a combined \$807,372.

- Earnings on investments increased eighty-five percent (85%), or \$462,158 in the general revenues.
- Due to the increased cost of fuel, natural gas, and electricity, energy costs in support services increased by thirty percent (30%), or \$230,907 for 2006.
- The District served as flow-through for the Hurricane Education Recovery Act for nonpublic schools. \$315,305, charged to noninstructional services, was transferred to four local nonpublic schools.

Governmental activities. The following table presents the cost of five major School District functional activities: instruction, support services, noninstructional, sixteenth section, and interest and other expenses 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 School District's taxpayers by each of these functions.

Net Cost of Governmental Activities

	Total Cost of Services		Percent Change	Net Cost of Services		Percent Change
	2006	2005		2006	2005	
Expenditures:						
Instruction	\$ 20,740,313	\$ 19,634,611	5.63	\$ 14,697,171	\$ 15,057,682	(2.39)
Support services	12,870,745	11,729,110	9.73	11,234,579	10,415,577	7.86
Noninstructional	2,685,796	2,209,185	21.57	(215,304)	(103,482)	108.06
Sixteenth section	3,468	16,814	(79.37)	3,468	16,814	(79.38)
Interest on long-term liabilities	553,511	602,728	(8.17)	545,643	587,355	(7.10)
	<u>\$ 36,853,833</u>	<u>\$ 34,192,448</u>	<u>7.78</u>	<u>\$ 26,265,557</u>	<u>\$ 25,973,946</u>	<u>1.12</u>

- The total cost of basic programs rose 7.78% to \$36,853,833. Because the portion of those costs paid for with charges, fees, grants, and contributions increased, the *net* cost that required taxpayer funding grew just 1.12% to \$26,265,557. The net cost of governmental activities \$26,265,557, was financed by general revenue, which is made up of primarily property taxes \$9,133,261, state revenue \$16,527,523, and federal revenue \$368,658.
- Investment earnings accounted for \$1,000,085 of funding.
- Sixteenth Section Revenues, including leases and oil and gas royalties accounted for \$364,722 of funding.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

As noted earlier, the School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the School District's governmental funds is to provide information on current inflows, outflows, and balances of spendable resources. Such information is useful in assessing the School District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the School District's net resources available for spending at the end of the fiscal year.

The financial performance of the School District as a whole is reflected in its governmental funds. As the School District completed the year, its governmental funds reported a combined fund balance of \$26,167,370, an increase of \$981,942 due primarily to the federal funds received from the Hurricane Education Recovery Act and increased investment rates. \$8,459,868 or 32% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the School District's discretion and \$17,707,502 or 68% is reserved or designated to indicate that it is not available for

spending because it has already been committed or legally restricted. A list of these reserves follows:

	<u>Amount</u>
Reserved for advances	\$ 444,137
Reserved for inventory	116,524
Reserved for unemployment benefits	103,741
Reserved for forestry improvements	15,885
Reserved for capital projects	6,600
Reserved for debt service	539,494
Reserved for permanent funds	<u>16,481,121</u>
 Total reserves	 <u>\$ 17,707,502</u>

The General Fund is the principal operating fund of the School District. The increase in fund balance in the General Fund for the fiscal year was \$488,298, a result of using Hurricane Education Recovery Act grant for salaries which normally would have been paid with the General Fund. The fund balance of Sixteenth Section Interest Fund showed an increase of \$415,378 due to an increase in interest earnings. Sixteenth Section Principal Fund showed an increase from the receipt of oil and gas royalties. Other Governmental Funds showed a decrease due to final debt payments.

BUDGETARY HIGHLIGHTS

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

General Fund:

Original budgeted local revenues for the General Fund were underestimated by prior year ad valorem receipts. Local revenues were also underestimated due to a change in depositories and increased interest rates.

Budgeted amounts for General Fund instruction were overestimated in salaries, due to using Hurricane Education Recovery Act grant for salaries which normally would have been paid with the General Fund.

Displaced Students Fund:

There was no original budget for this fund as the Hurricane Education Recovery Act was not signed by President Bush until December 30, 2005.

Sixteenth Section Interest Fund:

Actual revenues exceeded budgeted amounts in this fund in leases and interest earnings.

A schedule showing the original and final budget amounts compared to the School District's actual financial activity for the General Fund and other major funds can be found on Pages 33 - 35.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2006, the School District's total capital assets were \$27,419,783, including school buildings, school vehicles, furniture, and equipment. This amount represents an increase of \$14,983 from the previous year. Total accumulated depreciation as of June 30, 2006 was \$10,528,843 and total depreciation expense for the year was \$589,254, resulting in total net assets of \$16,890,940. Net capital assets decreased from the previous year by \$531,956.

CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)**Net Capital Assets**

	<u>2006</u>	<u>2005</u>	<u>Change</u>
Land	\$ 2,054,130	\$ 2,054,130	\$ (0)
Buildings	11,053,725	11,320,864	(267,139)
Building improvements	3,522,856	2,211,085	1,311,771
Other improvements	21,815	22,907	(1,092)
Mobile equipment	60,535	45,911	14,624
Furniture and equipment	177,879	259,636	(81,757)
Leased property capital leases	-	<u>1,508,363</u>	<u>(1,508,363)</u>
Total	<u>\$ 16,890,940</u>	<u>\$ 17,422,896</u>	<u>\$ (531,956)</u>

Additional information of the School District's capital assets can be found in Note 5 on Page 26 of this report.

Debt Administration. At June 30, 2006, the School District had \$10,625,000 in general obligation bonds and other long-term debt outstanding, plus an additional estimated \$241,108 in compensated absences payable. Of this amount, \$660,000 is due within one year.

Outstanding Long-Term Debt

	<u>2006</u>	<u>2005</u>
General obligation bonds and other long-term debt	\$ 10,625,000	\$ 11,512,192
Compensated absences payable	<u>241,108</u>	<u>228,398</u>
Total long-term debt	<u>\$ 10,866,108</u>	<u>\$ 11,740,590</u>

Additional information of the School District's long-term debt can be found in Note 6 on Pages 27 - 29 of this report.

CURRENT ISSUES

The School District is funded mainly by state aid (MAEP) and local taxes.

MAEP is calculated using student average daily attendance (ADA). Since 1999, the School District's ADA has fallen by an average of 100 students each year. This has had a negative impact on the School District's financial picture.

After hurricanes Katrina and Rita, the School District enrolled over 700 displaced students from disaster areas and was reimbursed \$1,559,298 for their education. Only 166 displaced students completed the school year in the District. This caused both enrollment and financial figures to be inflated for the 2006 school year. Eighty-two (82) displaced students began the 2007 school year.

Locally, the assessed valuations in Adams County decreased by over \$19 million in recent years, due in large part to the closings of major industries. However, the assessments for the 2007 school year have increased almost \$4 million.

The School District has committed itself to financial excellence for many years and to the community it serves. It plans to continue its sound fiscal management to meet the challenges of the future by using fund balances and reducing staffing and operating costs wherever possible.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Business Manager in the Superintendent's Office of the Natchez-Adams School District, 10 Homochitto Street, Natchez, Mississippi 39120.

NATCHEZ-ADAMS SCHOOL DISTRICT

FINANCIAL STATEMENTS

NATCHEZ-ADAMS SCHOOL DISTRICT

STATEMENT OF NET ASSETS

JUNE 30, 2006

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents (Note 3)	\$ 7,771,220
Cash with fiscal agents (Note 3)	208,866
Due from other governments	3,572,414
Other receivables, net	51,513
Inventories and prepaid items	116,524
Restricted assets	17,105,934
Capital assets, net (Note 5)	
Land	2,054,130
Buildings	23,630,685
Furniture and equipment	1,734,968
Accumulated depreciation	<u>(10,528,843)</u>
Total assets	<u>\$ 45,717,411</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 2,647,189
Due to other governments	11,912
Interest payable on long-term liabilities	236,287
Long-term liabilities, due within one year (Note 6)	
Capital related liabilities	640,000
Noncapital related liabilities	20,000
Long-term liabilities, due beyond one year (Note 6)	
Capital related liabilities	9,985,000
Noncapital related liabilities	<u>221,108</u>
Total liabilities	<u>\$ 13,761,496</u>
Net assets	
Investment in capital assets, net of related debt	\$ 6,265,940
Restricted net assets:	
Expendable:	
School-based activities	722,908
Debt service	303,208
Capital improvements	6,600
Forestry improvements	15,885
Unemployment benefits	103,741
Nonexpendable:	
Sixteenth section	16,481,121
Unrestricted	<u>8,056,512</u>
Total net assets	<u>\$ 31,955,915</u>

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

NATCHEZ-ADAMS SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2006

	Major Funds			Sixteenth Section Principal	Other Govern- mental Funds	Total Govern- mental Funds
	General Fund	Displaced Students	Sixteenth Section Interest			
ASSETS						
Cash and cash equivalents (Note 3)	\$ 2,693,826	\$ -	\$ 3,774,000	\$ 17,105,937	\$ 1,303,391	\$ 24,877,154
Cash with fiscal agents (Note 3)	-	-	-	-	208,866	208,866
Due from other governments	707,013	1,039,707	-	-	1,825,694	3,572,414
Accrued interest receivable	-	-	-	-	-	-
Other receivables, net	197	-	-	32,740	18,576	51,513
Due from other funds (Note 4)	2,218,101	-	657,556	-	24,516	2,900,173
Advances to other funds (Note 4)	-	-	-	444,137	-	444,137
Inventories and prepaid items	68,796	-	-	-	47,728	116,524
Total assets	\$ 5,687,933	\$ 1,039,707	\$ 4,431,556	\$ 17,582,814	\$ 3,428,771	\$ 32,170,781
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities	\$ 1,741,383	\$ -	\$ -	\$ -	\$ 905,806	\$ 2,647,189
Due to other funds (Note 4)	65,597	1,039,707	-	657,556	1,137,313	2,900,173
Due to other governments	8,288	-	-	-	3,624	11,912
Advances from other funds (Note 4)	444,137	-	-	-	-	444,137
Total liabilities	\$ 2,259,405	\$ 1,039,707	\$ -	\$ 657,556	\$ 2,046,743	\$ 6,003,411
Fund balances:						
Reserved for:						
Advances	\$ -	\$ -	\$ -	\$ 444,137	\$ -	\$ 444,137
Inventory	68,796	-	-	-	47,728	116,524
Unemployment benefits	-	-	-	-	103,741	103,741
Forestry improvements	-	-	-	-	15,885	15,885
Capital project purposes	6,600	-	-	-	-	6,600
Debt service purposes	-	-	-	-	539,494	539,494
Permanent fund purposes	-	-	-	16,481,121	-	16,481,121
Undesignated, reported in:						
General Fund	3,353,132	-	-	-	-	3,353,132
Special Revenue funds	-	-	4,431,556	-	675,180	5,106,736
Total fund balances	\$ 3,428,528	\$ -	\$ 4,431,556	\$ 16,925,258	\$ 1,382,028	\$ 26,167,370
Total liabilities and fund balances	\$ 5,687,933	\$ 1,039,707	\$ 4,431,556	\$ 17,582,814	\$ 3,428,771	\$ 32,170,781

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

NATCHEZ-ADAMS SCHOOL DISTRICT
 RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS

JUNE 30, 2006

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 26,167,370
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets, net of accumulated depreciation of \$10,528,843, used in governmental activities are not financial resources and, therefore, are not reported in the funds. (Note 5)	16,890,940
2. Liabilities not due and payable in the current period are not reported in the funds, as follows:	
Long-term liabilities (Note 6)	(10,866,108)
Accrued interest on long-term liabilities	<u>(236,287)</u>
Total Net Assets - Governmental Activities	<u>\$ 31,955,915</u>

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

NATCHEZ-ADAMS SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2006

	Major Funds				Other Govern- mental Funds	Total Govern- mental Funds
	General Fund	Displaced Students	Sixteenth Section Interest	Sixteenth Section Principal		
Revenues:						
Local sources	\$ 9,581,620	\$ -	\$ -	\$ -	\$ 396,011	\$ 9,977,631
State sources	16,053,595	-	-	-	1,630,040	17,683,635
Federal sources	447,641	1,392,957	-	-	7,532,644	9,373,242
Sixteenth section sources	-	-	278,039	889,827	2,923	1,170,789
Total revenues	<u>\$ 26,082,856</u>	<u>\$ 1,392,957</u>	<u>\$ 278,039</u>	<u>\$ 889,827</u>	<u>\$ 9,561,618</u>	<u>38,205,297</u>
Expenditures:						
Instruction	\$ 13,494,205	\$ 1,392,957	\$ -	\$ -	\$ 5,379,695	\$ 20,266,857
Support services	10,735,556	-	-	-	2,095,838	12,831,394
Noninstructional services	5,008	-	-	-	2,642,161	2,647,169
Sixteenth section	-	-	65	-	3,403	3,468
Facilities acquisition and construction	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	890,556	890,556
Interest	22,888	-	-	-	548,239	571,127
Other	-	-	-	-	3,486	3,486
Total expenditures	<u>\$ 24,257,657</u>	<u>\$ 1,392,957</u>	<u>\$ 65</u>	<u>\$ -</u>	<u>\$11,563,378</u>	<u>37,214,057</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 1,825,199</u>	<u>\$ -</u>	<u>\$ 277,974</u>	<u>\$ 889,827</u>	<u>\$ (2,001,760)</u>	<u>\$ 991,240</u>
Other financing sources (uses):						
Sale of other property	\$ 278	\$ -	\$ -	\$ -	\$ -	\$ 278
Operating transfers in	3,446,123	-	657,556	-	2,005,272	6,108,951
Operating transfers out	(4,802,555)	-	(520,152)	(657,556)	(128,688)	(6,108,951)
Other sources	1,464	-	-	-	-	1,464
Other uses	(137)	-	-	-	-	(137)
Total other financing sources (uses)	<u>\$ (1,354,827)</u>	<u>\$ -</u>	<u>\$ 137,404</u>	<u>\$ (657,556)</u>	<u>\$ 1,876,584</u>	<u>\$ 1,605</u>
Net change in fund balances	<u>\$ 470,372</u>	<u>\$ -</u>	<u>\$ 415,378</u>	<u>\$ 232,271</u>	<u>\$ (125,176)</u>	<u>\$ 992,845</u>
Fund balances:						
July 1, 2005	\$ 2,940,230	\$ -	\$ 4,016,178	\$ 16,692,986	\$ 1,536,034	\$ 25,185,428
Prior period adjustments (Note 9)	13,860	-	-	1	(21,218)	(7,357)
July 1, 2005, as restated	\$ 2,954,090	\$ -	\$ 4,016,178	\$ 16,692,987	\$ 1,514,816	\$ 25,178,071
Increase (decrease) in reserved for inventory	4,056	-	-	-	(7,602)	(3,546)
Residual equity transfers in (out)	10	-	-	-	(10)	-
June 30, 2006	<u>\$ 3,428,528</u>	<u>\$ -</u>	<u>\$ 4,431,556</u>	<u>\$ 16,925,258</u>	<u>\$ 1,382,028</u>	<u>\$ 26,167,370</u>

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

NATCHEZ-ADAMS 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

	Amount
Net Change in Fund Balances - Governmental Funds	\$ 992,845
Amounts reported for governmental activities in the statement of activities are different because:	
1. Capital outlays are reported as expenditures in the governmental funds but are not reported as expenses in the statement of activities. Instead, costs associated with capital assets are capitalized in the statement of net assets.	58,313
2. Depreciation is not an expenditure in governmental funds but is an expense of allocating the cost of capital assets over their estimated useful lives in the statement of activities.	(589,254)
3. In the statement of activities, only gains and losses from the sale of capital assets are reported, whereas in governmental funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by a combination of the following items:	
Proceeds from sales of capital assets	(646)
Losses on sales of capital assets	(369)
4. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	887,193
5. Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the statement of activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net assets differs from the change in fund balances by a combination of the following items:	
Compensated absences	(12,710)
Accrued interest on long-term debt	21,102
6. In the governmental funds, inventories are valued using the purchased method of inventory valuation rather than the consumption method, which is used for the Statement of Activities.	(3,546)
Change in Net Assets of Governmental Activities	\$ 1,352,928

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

NATCHEZ-ADAMS SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2006

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents (Note 3)	\$ 534,152
Due from other governments	<u>9,553</u>
Total assets	<u>\$ 543,705</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 453,713
Due to other governments	42,379
Due to student clubs	<u>47,613</u>
Total liabilities	<u>\$ 543,705</u>

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

NATCHEZ-ADAMS 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 and its blended component unit. As defined by accounting principles generally accepted in the United States of America, the School District is considered a primary government. The School District is governed by a five-member board, where two are appointed by the Adams County Board of Supervisors and three are appointed by the City of Natchez Board of Aldermen.

The Natchez-Adams School District Leasing Authority (the Authority) as explained in the following paragraph is considered to be a blended component unit as determined by Section 2100 of the *Codification of Governmental Accounting and Financial Reporting Standards* and is included in the School District's reporting entity.

The Authority is governed by a six-member board, which was appointed by the School District's governing board. Although it is legally separate from the School District, it is reported as if it is part of the primary government because its sole purpose is to provide financing for the renovation, improvement, construction, and equipping of certain school facilities. Therefore, all of the Authority's assets, liabilities, equity, revenues, expenditures, and other financing sources and uses have been included in the government-wide financial statements of the School District. (See Note 12)

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.

NATCHEZ-ADAMS SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation (continued)

Fund Financial Statements:

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

C. Measurement Focus and Basis of Accounting

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

In the fund financial statements, governmental funds 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.

Displaced Students Grants - The School District received federal funds through the authorization of the Hurricane Education Recovery Act. The grant was awarded based on the number of students who enrolled in the District who were enrolled during the 2004-2005 school year in elementary and secondary school that were closed on September 12, 2005, as a result of Hurricane Katrina, or on October 7, 2005, as a result of Hurricane Rita. Funds were used to defray expenses related to the re-enrollment of these students.

Sixteenth Section Interest Fund - This fund contains expendable Sixteenth Section funds. Sources include revenues from leases, interest, and sale of timber. It may be used to purchase investments, transfer to the District maintenance fund, and pay drainage district taxes and sixteenth section land improvements.

Sixteenth Section Principal Fund - This fund contains nonexpendable Sixteenth Section funds. Sources include revenues from easements and rights-of-way, permanent damages, sale of sixteenth section lands, sale

NATCHEZ-ADAMS SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus and Basis of Accounting (continued)

of nonrenewable resources, sale of buildings, and interest. It may be used to purchase investments, purchase lieu lands, loans for school building purposes, forest stand improvements, and purchase of school buses.

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 School District's programs.

FIDUCIARY FUNDS

Agency Funds – Agency Funds are used to report resources held by the School 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.

NATCHEZ-ADAMS SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 presented 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 cost 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.

I. Capital Assets

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

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

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are reported in the government-wide statements and proprietary funds. Depreciation is calculated on the straight-line basis for all assets, except land. The following schedule details those thresholds.

	<u>Capitalization Policy</u>	<u>Estimated Useful Life</u>
Land	\$ -	-
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.

(**) 15 year estimated useful life for relocatable buildings.

NATCHEZ-ADAMS SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, constructions, or improvement of those assets.
2. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Fund Financial Statements:

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

NATCHEZ-ADAMS SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Equity Classifications (continued)

Fund Financial Statements: (continued)

Fund reserves are portions of fund equity that are legally segregated for a specific future use or are not available for current operations. The following is a description of fund reserves used by the School 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 inventory - An account that represents a portion of the fund balance, which indicates that inventories do not represent available spendable resources even though they are a component of net current assets.

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

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

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

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

M. Property Taxes

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

N. Mississippi Adequate Education Program Revenues

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

O. Compensated Absences

Employees of the School District accumulate sick leave at a minimum amount as required by state law or at a greater amount provided by School District policy. Some employees are allowed personal leave and/or vacation

NATCHEZ-ADAMS SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

O. Compensated Absences (continued)

leave in accordance with School District policy. The School 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 only the compensated absence liability payable from expendable available financial resources only if the payable has matured, for example, or an employee retires.

2. CHANGES IN ACCOUNTING STANDARDS

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

3. CASH AND CASH EQUIVALENTS AND CASH WITH FISCAL AGENTS

Cash and Cash Equivalents and Cash with Fiscal Agents

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

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

Investments. Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to invest surplus funds in the types of investments authorized by Section 27-105-33(d) and (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 obligation; (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

NATCHEZ-ADAMS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

3. CASH AND CASH EQUIVALENTS AND CASH WITH FISCAL AGENTS (continued)

Cash and Cash Equivalents and Cash with Fiscal Agents (continued)

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 \$24,877,154 and \$534,152, respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and Cash Equivalents \$7,771,217 and Restricted Assets \$17,105,937. The Restricted Assets represents the cash balance of the Sixteenth Section Principal Funds (Permanent Funds), which is legally restricted and may not be used for purposes that support the School District's programs. The bank balance was \$26,011,853.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the even 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, \$0 of the District's bank balance of \$26,011,853 was exposed to custodial credit risk.

Cash With Fiscal Agents

The carrying amount of the School District's cash with fiscal agents held by financial institutions was \$208,866.

4. INTERFUND TRANSACTIONS AND BALANCES

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

	<u>Due From</u>	<u>Due To</u>
Governmental funds:		
General fund	\$ 2,218,101	\$ 65,597
Displaced students	-	1,039,707
Sixteenth section interest	657,556	-
Sixteenth section principal	-	657,556
Other governmental funds	<u>24,516</u>	<u>1,137,313</u>
Total funds	<u>\$ 2,900,173</u>	<u>\$ 2,900,173</u>

NATCHEZ-ADAMS SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

4. INTERFUND TRANSACTIONS AND BALANCES (continued)

A. Due From/To Other Funds: (continued)

The amounts due to or from other funds represent amounts advanced or received for timing differences between revenues and expenditures and loans to cover cash deficits in pooled bank accounts.

B. Advances To/From Other Funds:

	<u>Advances To</u>	<u>Advances From</u>
Governmental funds:		
General fund	\$ -	\$ 444,137
Other major funds		
Sixteenth section principal	<u>444,137</u>	<u>-</u>
Total funds	<u>\$ 444,137</u>	<u>\$ 444,137</u>

The sixteenth section principal loans payable is not reflected on the Statement of Net Assets because these funds were borrowed by the General Fund from the Sixteenth Section Trust Fund (Permanent Trust) in accordance with Section 29-3-113, Miss. Code Ann. (1972). The revenues and expenditures associated with these transactions were reflected on Exhibit D-1. These loans were for capital expenditures and repairs.

Sixteenth section principal loans payable

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

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 133,183	\$ 17,766	\$ 150,949
2008	138,510	12,439	150,949
2009	144,052	6,897	150,949
2010	<u>28,392</u>	<u>1,135</u>	<u>29,527</u>
Total	<u>\$ 444,137</u>	<u>\$ 38,237</u>	<u>\$ 482,374</u>

C. Transfers In/Out

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental funds:		
General fund	\$ 3,446,123	\$ 4,802,555
Other major funds:		
Sixteenth section interest	657,556	520,152
Sixteenth section principal	-	657,556
Other governmental funds	<u>2,005,272</u>	<u>128,688</u>
Total funds	<u>\$ 6,108,951</u>	<u>\$ 6,108,951</u>

The transfers represent operating transfers for school operations and transfers for indirect costs, debt service, and unrestricted sixteenth section interest earnings.

NATCHEZ-ADAMS SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

5. CAPITAL ASSETS

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

	<u>Balance</u> <u>7/1/05</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	<u>Balance</u> <u>6/30/06</u>
<u>Nondepreciable capital assets:</u>					
Land	\$ 2,054,130	\$ -	\$ -	\$ -	\$ 2,054,130
Total nondepreciable capital assets	\$ 2,054,130	\$ -	\$ -	\$ -	\$ 2,054,130
	<u>Balance</u> <u>7/1/05</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	<u>Balance</u> <u>6/30/06</u>
<u>Depreciable capital assets:</u>					
Buildings	\$ 18,715,851	\$ -	\$ -	\$ -	\$ 18,715,851
Building improvements	2,469,856	-	-	2,444,978	4,914,834
Improvements other than buildings	27,270	-	-	-	27,270
Mobile equipment	304,651	23,899	(6,465)	-	322,085
Furniture and equipment	1,388,064	34,414	(36,865)	-	1,385,613
Leased property under capital leases	2,444,978	-	-	(2,444,978)	-
Total depreciable capital assets	\$ 25,350,670	\$ 58,313	\$ (43,330)	\$ -	\$ 25,365,653
<u>Less accumulated depreciation for:</u>					
Buildings	\$ 7,394,984	\$ 267,142	\$ -	\$ -	\$ 7,662,126
Building improvements	258,770	196,593	-	936,615	1,391,978
Improvements other than buildings	4,364	1,091	-	-	5,455
Mobile equipment	258,740	8,629	(5,819)	-	261,550
Furniture and equipment	1,128,431	115,799	(36,496)	-	1,207,734
Leased property under capital leases	936,615	-	-	(936,615)	-
Total accumulated depreciation	\$ 9,981,904	\$ 589,254	\$ (42,315)	\$ -	\$ 10,528,843
Total depreciable capital assets, net	\$ 15,368,766	\$ (530,941)	\$ (1,015)	\$ -	\$ 14,836,810
Governmental activities capital assets, net	\$ 17,422,896	\$ (530,941)	\$ (1,015)	\$ -	\$ 16,890,940

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$ 479,807
Support services	51,756
Noninstructional	57,691
Total depreciation expense	\$ 589,254

NATCHEZ-ADAMS SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

6. LONG-TERM LIABILITIES

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

	<u>Balance</u> <u>7/1/2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/06</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
A. Limited obligation bonds payable	\$ 6,510,000	\$ -	\$ 345,000	\$ 6,165,000	\$ 360,000
B. Certificates of participation payable	4,888,819	3,413	432,232	4,460,000	280,000
C. Obligations under energy efficiency lease	113,373	-	113,373	-	-
D. Compensated absences payable	<u>228,398</u>	<u>12,710</u>	<u>-</u>	<u>241,108</u>	<u>20,000</u>
Total	<u>\$ 11,740,590</u>	<u>\$ 16,123</u>	<u>\$ 890,605</u>	<u>\$ 10,866,108</u>	<u>\$ 660,000</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:

<u>Description</u>	<u>Interest</u> <u>Rate</u>	<u>Issue</u> <u>Date</u>	<u>Maturity</u> <u>Date</u>	<u>Amount</u> <u>Issued</u>	<u>Amount</u> <u>Outstanding</u>
State aid capital improvement, Series 1998	4.25-6.00%	5/27/1998	02/01/2018	\$ 7,500,000	\$ 6,165,000
Total				<u>\$ 7,500,000</u>	<u>\$ 6,165,000</u>

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

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 360,000	\$ 280,935	\$ 640,935
2008	390,000	258,435	648,435
2009	410,000	234,691	644,691
2010	435,000	212,643	647,643
2011	455,000	192,173	647,173
2012-2016	2,540,000	630,573	3,170,573
2017-2019	<u>1,575,000</u>	<u>83,511</u>	<u>1,658,511</u>
Total	<u>\$ 6,165,000</u>	<u>\$ 1,892,961</u>	<u>\$ 8,057,961</u>

NATCHEZ-ADAMS SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

6. LONG-TERM LIABILITIES (continued)

A. Limited obligation bonds payable (continued)

The state aid capital improvement bonds are secured by an irrevocable pledge of certain revenues the School 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 the MAEP debt service fund.

B. Certificates of participation payable

As more fully explained in Note 12, certificates of participation have been issued by the School District. Certificates of participation currently outstanding are as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount</u>	
				<u>Amount Issued</u>	<u>Outstanding</u>
Trust Certificates	4.90%	12/30/1997	12/30/2017	\$ 6,285,000	\$ 4,460,000
				<u>\$ 6,285,000</u>	<u>\$ 4,460,000</u>

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 280,000	\$ 218,540	\$ 498,540
2008	295,000	204,820	499,820
2009	310,000	190,365	500,365
2010	325,000	175,175	500,175
2011	340,000	159,250	499,250
2012-2016	1,980,000	528,220	2,508,220
2017-2019	<u>930,000</u>	<u>68,845</u>	<u>998,845</u>
Total	<u>\$ 4,460,000</u>	<u>\$ 1,545,215</u>	<u>\$ 6,005,215</u>

This debt will be retired from the 1997 Trustmark Debt Service Fund.

C. Obligations under energy efficiency lease

An energy efficiency lease agreement dated June 13, 1996, was executed by and between the School District, the lessee, and Trustmark National Bank, the lessor.

The agreement authorized the borrowing of \$1,158,550 for the purchase of energy efficiency equipment, machinery, supplies, building modifications, and other energy saving items. Payments of the lease shall be made from the School District maintenance fund and not exceed ten (10) years.

The School District entered into this energy efficiency lease agreement under the authority of Section 31-7-14, Miss. Code Ann. (1972).

NATCHEZ-ADAMS SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

6. LONG-TERM LIABILITIES (continued)

C. Obligations under energy efficiency lease (continued)

Upon written notice to the lessor, the lessee has the option of repaying the total amount due as set forth by this agreement.

During the fiscal year the debt was retired from the Trustmark Debt Service Fund, which was funded by transfers from District Maintenance Fund and the 1994 Note Retirement Fund.

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). Compensated absences will be paid from the fund from which the employees' salaries were paid.

7. DEFINED BENEFIT PENSION PLAN

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the School District is required to contribute at an actuarially determined rate. The 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 \$2,143,193, \$1,839,532, and \$1,757,396, 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.

NATCHEZ-ADAMS SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

8. SIXTEENTH SECTION LANDS (continued)

<u>Year ending June 30,</u>	<u>Amount</u>
2007	\$ 107,700
2008	80,169
2009	70,247
2010	32,251
2011	<u>804</u>
Total	<u>\$ 291,171</u>

9. PRIOR PERIOD ADJUSTMENTS/EXHIBITS

A summary of significant fund equity adjustments is as follows:

Exhibit B - Statement of Activities

<u>Explanation</u>	<u>Amount</u>
Overstated prior year payable	\$ 13,860
Overstated prior year receivable	(21,219)
Prior period ending balance - rounding error	<u>2</u>
Total	<u>\$ (7,357)</u>

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

<u>Major funds:</u>	<u>Explanations</u>	<u>Amount</u>
General Fund	1. Overstated prior year payable	\$ 13,860
	2. Prior period ending balance	1
Other Governmental Fund	1. Overstated prior year receivable	(21,219)
	2. Prior period ending balance	<u>1</u>
Total		<u>\$ (7,357)</u>

10. RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Except as described below, the School District carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Participation in Public Entity Risk Pool

The School District is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 119 school districts and covers risks of loss arising from injuries to the School District's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each

NATCHEZ-ADAMS SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

10. RISK MANAGEMENT (continued)

Participation in Public Entity Risk Pool (continued)

member. Each member of MSBAWCT contributes quarterly to a fund held in trust by BancorpSouth in Jackson. The funds in the trust account are used to pay any claim up to \$500,000. For a claim exceeding \$500,000, MSBAWCT has insurance, which will pay the excess up to \$25,000,000. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The School District has not had an additional assessment for excess losses incurred by the pool. In 2006, the School District was assessed an additional \$15,738, or 5%, of its annual premium by the MSBAWCT.

11. UNCERTAINTIES

In cases where a township is occupied by two or more school districts, state law requires that available sixteenth section funds shall be divided between the school districts lying wholly or partly within such townships in proportion to the number of children enrolled and residing in each school district. In order to determine what portions of available sixteenth section funds are due to or from other school districts, the superintendent of each school district is required to compile lists of such children in compliance with Section 29-3-121, Miss. Code Ann. (1972). The other School District which shares townships with Natchez-Adams School District have not filed lists of children as required. The Natchez-Adams Schools District is also unable to calculate the amount of revenue derived from the shared townships because it has been unable to determine the location of the lieu lands. The School District is consulting legal counsel to determine the best way to proceed with resolving this matter. No division of sixteenth section revenues has been accrued as a receivable or payable, as the case may be.

Of the townships Natchez-Adams School District shares with other school districts, Natchez-Adams School District has control of some of the sixteenth section property. A portion of the sixteenth section revenues (rents, leases, timber sales, etc.) Natchez-Adams School District received on these sections may be due to other school districts. In addition, on the other townships where another School District controls the sixteenth section property, Natchez-Adams School District may be entitled to a portion of the sixteenth section revenues the other School District(s) received. Because the other School Districts have not compiled and filed lists of children as state law requires in either the current year or in preceding years, and because the School District is unable to determine the location of lieu lands, neither the amounts of any liabilities owed to other School Districts nor the amounts of any receivables from other School Districts can be determined.

12. TRUST CERTIFICATES

The trust agreements dated January 15, 1996, were executed by and between the School District and Britton and Koontz Bank, N.A. of Natchez, Mississippi, as trustees, and on December 30, 1997 between the School District and Trustmark National Bank of Jackson, Mississippi, as trustees.

The trust agreement with Britton and Koontz Bank, N.A. authorized the issuance of trust certificates in the principal amount of \$1,323,096. Approximately \$1,314,721 was to provide financing for the construction and renovation of school buildings and related facilities and equipment; the remainder of approximately \$8,375 was used to pay the cost of issuance.

The trust agreement with Trustmark National Bank authorized the issuance of trust certificates in the principal amount of \$6,285,000. This amount was used to provide financing for the construction and renovation of school buildings, related facilities, and equipment; with the remainder used to pay the cost of issuance.

NATCHEZ-ADAMS SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

12. TRUST CERTIFICATES (continued)

Both projects are leased to the School District in accordance with the provisions of the Emergency School Leasing Authority Act as described in Section 37-7-351, *et seq.*, Miss. Code Ann. (1972). The leases represent capital leases under which ownership of the projects will transfer to the School District upon complete retirement of each of the trust certificates. The School District is obligated to make lease payments to the trustees in amounts equal to the debt service requirements for each of the trust certificates issued. The lease rental payments by the School District are used by the trustees to pay the principal and interest payments due on the trust certificates.

It is not anticipated the projects will have sufficient value to satisfy the certificates in the event the School District defaults under the leases; therefore, the source of payment of the certificates is the responsibility of the School District. See Note 5 for details regarding the debt service requirement on the trust certificates.

Using the guidance provided in Section 2100 of the *Codification of Governmental Accounting and Financial Reporting Standards* dealing with defining the reporting entity, the trust accounts created by these trust agreements were deemed to constitute an inseparable part of the School District. Therefore, the assets, liabilities, equity, revenues, expenditures, and other financing sources/uses of the trust accounts created by these trust agreements are consolidated as part of the School District's financial statements, thereby eliminating the effects of the lease agreements for financial reporting purposes.

REQUIRED SUPPLEMENTARY INFORMATION

NATCHEZ-ADAMS SCHOOL DISTRICT

NATCHEZ-ADAMS 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	\$ 9,213,214	\$ 9,249,338	\$ 9,581,620	\$ 36,124	\$ 332,282
State sources	16,024,254	16,154,160	16,053,595	129,906	(100,565)
Federal sources	<u>632,613</u>	<u>479,638</u>	<u>447,641</u>	<u>(152,975)</u>	<u>(31,997)</u>
Total revenues	<u>\$ 25,870,081</u>	<u>\$ 25,883,136</u>	<u>\$ 26,082,856</u>	<u>\$ 13,055</u>	<u>\$ 199,720</u>
Expenditures:					
Instruction	\$ 15,096,334	\$ 14,698,185	\$ 13,494,205	\$ 398,149	\$ 1,203,980
Support services	10,676,256	10,877,798	10,735,556	(201,542)	142,242
Noninstructional services	12,435	15,854	5,008	(3,419)	10,846
Debt service:					
Principal	-	-	-	-	-
Interest	<u>22,888</u>	<u>22,888</u>	<u>22,888</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>\$ 25,807,913</u>	<u>\$ 25,614,725</u>	<u>\$ 24,257,657</u>	<u>\$ 193,188</u>	<u>\$ 1,357,068</u>
Excess of revenues over expenditures	<u>\$ 62,168</u>	<u>\$ 268,411</u>	<u>\$ 1,825,199</u>	<u>\$ 206,243</u>	<u>\$ 1,556,788</u>
Other financing sources (uses):					
Sale of other property	\$ -	\$ 300	\$ 278	\$ 300	\$ (22)
Operating transfers in	3,534,665	3,534,665	3,446,123	-	(88,542)
Operating transfers out	(4,573,106)	(4,816,181)	(4,802,555)	(243,075)	13,626
Other sources	-	1,510	1,464	1,510	(46)
Other uses	<u>-</u>	<u>(137)</u>	<u>(137)</u>	<u>(137)</u>	<u>-</u>
Total other financing sources (uses)	<u>\$ (1,038,441)</u>	<u>\$ (1,279,843)</u>	<u>\$ (1,354,827)</u>	<u>\$ (241,402)</u>	<u>\$ (74,984)</u>
Net change in fund balances	<u>\$ (976,273)</u>	<u>\$ (1,011,432)</u>	<u>\$ 470,372</u>	<u>\$ (35,159)</u>	<u>\$ 1,481,804</u>
Fund balances:					
July 1, 2005	\$ 2,599,786	\$ 2,940,236	\$ 2,940,230	\$ 340,450	\$ (6)
Prior period adjustments (Note 9)	<u>-</u>	<u>13,900</u>	<u>13,860</u>	<u>13,900</u>	<u>(40)</u>
July 1, 2005, as restated	<u>\$ 2,599,786</u>	<u>\$ 2,954,136</u>	<u>\$ 2,954,090</u>	<u>\$ 354,350</u>	<u>\$ (46)</u>
Increase (decrease) in reserve for inventory	\$ -	\$ 4,060	\$ 4,056	\$ 4,060	\$ (4)
Residual equity transfer in (out)	<u>\$ -</u>	<u>\$ 10</u>	<u>\$ 10</u>	<u>\$ 10</u>	<u>\$ -</u>
June 30, 2006	<u>\$ 1,623,513</u>	<u>\$ 1,946,774</u>	<u>\$ 3,428,528</u>	<u>\$ 323,261</u>	<u>\$ 1,481,754</u>

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

NATCHEZ-ADAMS SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
DISPLACED STUDENTS 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:					
Federal sources	-	1,523,405	1,392,957	1,523,405	130,448
Total revenues	-	1,523,405	1,392,957	1,523,405	130,448
Expenditures:					
Instruction	-	1,523,405	1,392,957	(1,523,405)	130,448
Total expenditures	-	1,523,405	1,392,957	(1,523,405)	130,448
Excess (deficiency) of revenues over expenditures	-	-	-	-	-
Other financing sources (uses):					
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	-	-	-	-	-
Fund balance/retained earnings:					
July 1, 2005	-	-	-	-	-
Prior period adjustments	-	-	-	-	-
July 1, 2005, as restated	-	-	-	-	-
Increase (decrease) in reserve for inventory	-	-	-	-	-
Reclassify fund equity	-	-	-	-	-
June 30, 2006	-	-	-	-	-

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

NATCHEZ-ADAMS 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	\$ 189,000	\$ 189,000	\$ 278,039	\$ -	\$ 89,039
Total revenues	\$ 189,000	\$ 189,000	\$ 278,039	\$ -	\$ 89,039
Expenditures					
Sixteenth section	\$ -	\$ 65	\$ 65	\$ (65)	\$ -
Total expenditures	\$ -	\$ 65	\$ 65	\$ (65)	\$ -
Excess (deficiency) of revenues over expenditures	\$ 189,000	\$ 188,935	\$ 277,974	\$ (65)	\$ 89,039
Other financing sources (uses)					
Operating transfers in	\$ 490,000	\$ 490,000	\$ 657,556	\$ -	\$ 167,556
Operating transfers out	(504,270)	(520,449)	(520,152)	(16,179)	297
Total other financing sources (uses)	\$ (14,270)	\$ (30,449)	\$ 137,404	\$ (16,179)	\$ 167,853
Net change in fund balances	\$ 174,730	\$ 158,486	\$ 415,378	\$ (16,244)	\$ 256,892
Fund balances:					
July 1, 2005	\$ 4,040,759	\$ 4,016,178	\$ 4,016,178	\$ (24,581)	\$ -
July 1, 2005, as restated	\$ 4,040,759	\$ 4,016,178	\$ 4,016,178	\$ (24,581)	\$ -
June 30, 2006	\$ 4,215,489	\$ 4,174,664	\$ 4,431,556	\$ (40,825)	\$ 256,892

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

NATCHEZ-ADAMS SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2006

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule

(1) Basis of Presentation

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

(2) Budget Amendments and Revisions

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

(3) Prior Period Adjustments

A summary of significant fund equity adjustments can be found in Note 9 of the Notes to Financial Statements.

SUPPLEMENTAL INFORMATION

NATCHEZ-ADAMS 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		
Noncash assistance		
Food donation	10.550	\$ 107,649
Child nutrition cluster		
School breakfast program	10.553	\$ 461,044
National school lunch program	10.555	1,469,666
Summer food service program for children	10.559	51,843
Total child nutrition cluster		<u>\$ 1,982,553</u>
Total passed-through Mississippi Department of Education		<u>\$ 2,090,202</u>
Passed-through State of Mississippi		
Fresh fruit and vegetable program	10.582	\$ 26,291
Schools and roads - grants to states	10.665	90,831
Total passed-through State of Mississippi		<u>\$ 117,122</u>
Total U. S. Department of Agriculture		<u>\$ 2,207,324</u>
<u>U. S. Department of Defense</u>		
Direct program(s)		
Reserve Officers' Training Corps	12.xxx	\$ 57,631
Total		<u>\$ 57,631</u>
Total U. S. Department of Defense		<u>\$ 57,631</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	\$ 277,768
Total		<u>\$ 277,768</u>
Total Federal Communications Commission		<u>\$ 277,768</u>
<u>U. S. Department of Education</u>		
Direct Programs		
Funds for the improvement of Education - Carol M White P E Program	84.215F	\$ 247,415
Total		<u>\$ 247,415</u>
Passed-through Mississippi Department of Education		
Title I - grants to local educational agencies	84.010	\$ 1,837,361
Title I - program for neglected and delinquent children	84.013	25,629
Vocational education - basic grants to states	84.048	80,264

NATCHEZ-ADAMS 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 Education</u> (continued)		
Safe and drug-free schools and communities - state grants	84.186	56,441
Education for homeless children and youth	84.196	72,950
Eisenhower professional development state grants	84.281	202,776
Innovative education program strategies	84.298	22,337
Education technology state grants	84.318	41,713
Teacher quality enhancement grants	84.336	500
Reading first state grants	84.357	559,957
Rural education	84.358	208,981
Improving teacher quality - state grants	84.367	95,601
State assessments grants	84.369	27,518
Hurricane education recovery	84.938	1,928,673
Total		<u>\$ 5,160,701</u>
Special education cluster		
Special education - grants to states	84.027	\$ 1,362,594
Special education - preschool grants	84.173	49,169
Total		<u>\$ 1,411,763</u>
Total passed-through Mississippi Department of Education		<u>\$ 6,572,464</u>
Total U. S. Department of Education		<u>\$ 6,819,879</u>
<u>U. S. Department of Homeland Security</u>		
Passed-through Mississippi Department of Finance & Administration		
Disaster grants - public assistance (Presidentially declared disasters)	97.036	\$ 10,580
Total passed-through Mississippi Department of Finance & Administration		<u>\$ 10,580</u>
Total U. S. Department of Homeland Security		<u>\$ 10,580</u>
Total for all Federal awards		<u>\$ 9,373,182</u>

NATCHEZ-ADAMS SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

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.

NATCHEZ-ADAMS SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL, ADMINISTRATIVE, AND OTHER EXPENDITURES -
GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2006

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other Student Instructional Expenditures</u>	<u>General Administration</u>	<u>School Administration</u>	<u>Other</u>
Salaries and fringe benefits	\$ 26,766,672	\$ 20,458,910	\$ 1,372,675	\$ 2,082,625	\$ 2,852,462
Other	<u>10,447,385</u>	<u>3,519,046</u>	<u>279,382</u>	<u>107,653</u>	<u>6,541,304</u>
Total	<u>\$ 37,214,057</u>	<u>\$ 23,977,956</u>	<u>\$ 1,652,057</u>	<u>\$ 2,190,278</u>	<u>\$ 9,393,766</u>
Total number of students	4,288				
Cost per student	<u>\$ 8,679</u>	<u>\$ 5,592</u>	<u>\$ 385</u>	<u>\$ 511</u>	<u>\$ 2,191</u>

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.

NATCHEZ-ADAMS SCHOOL DISTRICT

REPORTS ON INTERNAL CONTROLS AND COMPLIANCE



209 N. Commerce Street
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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
Natchez-Adams School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Natchez-Adams School District as of and for the year ended June 30, 2006, which collectively comprise the Natchez-Adams School District's basic financial statements and have issued our report thereon dated November 27, 2006. 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 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. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

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 did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance or other matters that we have reported to management of the school district in a separate letter dated November 27, 2006, which is included in this report.

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

Natchez, Mississippi
November 27, 2006



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**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
Natchez-Adams School District

Compliance

We have audited the compliance of the Natchez-Adams 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 accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit 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, Natchez-Adams 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 Natchez-Adams 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 our 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 noted no 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.

A handwritten signature in black ink that reads "Silas Simmons" followed by a stylized set of initials, possibly "AS".

Natchez, Mississippi
November 27, 2006

NATCHEZ-ADAMS SCHOOL DISTRICT

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



SILAS SIMMONS LLP

CERTIFIED PUBLIC ACCOUNTANTS *and* ADVISORS

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

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Superintendent and School Board
Natchez-Adams School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Natchez-Adams School District as of and for the year ended June 30, 2006, and have issued our report thereon dated November 27, 2006. 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*.

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 School District reported \$20,878 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 following immaterial instance of noncompliance with other state laws and regulations. Our finding and recommendation and your response are as follows:

Finding

As reported in the prior year, the District shares townships with other districts. Section 29-3-119, Miss. Code Ann., (1972), requires that the sixteenth section revenue derived from the shared townships be divided according to the applicable percentage of educable children. Although the District prepared and filed the lists of educable children with the Superintendent, the District has not been able to calculate the amount of revenue derived from the shared townships because it has been unable to determine the location of the lieu lands and none of the other School Districts compiled and filed lists of children as state law requires in either the current year or in any preceding years.

Recommendation

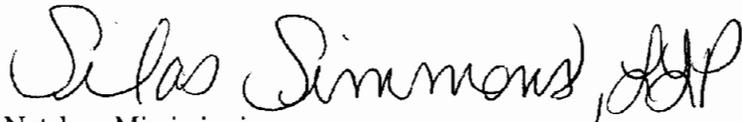
The District should consult legal counsel to determine the best way to proceed with determining the location of the lieu lands. Once lieu lands are identified, the District should be able to calculate the amount of revenue derived from the shared townships. Revenues can then be divided according to the applicable percentage of educable children once other School Districts comply with state law and file the appropriate lists of educable children.

Auditee's Response

The District has determined which townships are shared with other districts and has consulted with Board counsel. The Board counsel has been assigned the duty of identifying lieu lands.

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

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.



Natchez, Mississippi
November 27, 2006

NATCHEZ-ADAMS SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

NATCHEZ-ADAMS SCHOOL DISTRICT

NATCHEZ-ADAMS SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006

Section 1: Summary of Auditor's Results

Financial Statements:

- | | |
|--|-------------|
| 1. Type of auditor's report issued on the financial statements: | Unqualified |
| 2. Material noncompliance relating to the financial statements? | No |
| 3. Internal control over financial reporting: | |
| a. Material weakness(es) identified? | No |
| b. Reportable condition(s) 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 weakness(es) identified? | No |
| b. Reportable condition(s) identified that are not considered to be material weaknesses? | No |
| 6. Any audit finding(s) reported as required by section __.510(a) of OMB Circular A-133? | No |
| 7. Federal programs identified as major programs: | |
| a. Child Nutrition Cluster: | |
| CFDA#: 10.553 School Breakfast | |
| CFDA#: 10.555 National School Lunch | |
| CFDA#: 10.559 Summer Food Service | |
| b. Title I CFDA: 84.010 | |
| c. Hurricane Education Recovery CFDA#: 84.938 | |
| d. Reading First State Grant CFDA#: 84.357 | |
| e. Special Education Cluster: | |
| CFDA#: 84.027 Grants to State | |
| CFDA#: 84.173 Preschool Grants | |
| 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 |

NATCHEZ-ADAMS SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006

Section 1: Summary of Auditor's Results (continued)

10. Prior fiscal year audit finding(s) 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

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

Section 3: Federal Awards Findings and Questioned Costs

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