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**NESHOBA COUNTY SCHOOL DISTRICT**

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

**NESHOBA COUNTY SCHOOL DISTRICT  
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**NESHOBA COUNTY SCHOOL DISTRICT  
FINANCIAL AUDIT REPORT**



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

Superintendent and School Board  
Neshoba County School District

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2006, on our consideration of the Neshoba County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages (4) through (10) and the Budgetary Comparison Schedule and corresponding notes on pages (40) through (43) 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 Neshoba County School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. In addition, the Schedule of Instructional Administrative and Other Expenditures – Governmental Funds is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Watkins, Ward and Stafford  
Philadelphia, Mississippi  
December 14, 2006

*Watkins, Ward and Stafford, PLLC*

**NESHOBA COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

# NESHOBA COUNTY SCHOOL DISTRICT

V. C. MANNING, Superintendent

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Director of Business Affairs

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Accounts Payable/Purchasing Officer

MRS. LISA ALFORD

Business Officer

MRS. KAY COPELAND

Executive Secretary

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

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

### FINANCIAL HIGHLIGHTS

- Total net assets increased \$1,303,557, which represents 10% increase from fiscal year ending June 30, 2005.
- General revenues account for \$16,644,276 in revenue, or 80% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$4,202,741 or 20% of total revenues.
- The District had \$19,543,460 in expenses; only \$4,202,741 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$16,644,276 were adequate to provide for these programs.
- Among major funds, the General Fund had \$16,153,470 in revenues and \$14,826,061 in expenditures. The General Fund's fund balance increased \$840,287 over the prior year. The increase was a result of total revenues outpacing total expenses.
- Capital assets, net of accumulated depreciation, decreased by \$266,671. This decrease was a result of current year depreciation expense increasing at a greater rate than capital asset additions.

- Long-term debt decreased by \$338,563. The district issued no new debt during the fiscal year ending June 30, 2006

## OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

The government-wide financial statements can be found in this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are included in the financial statements of the audit report.

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

The basic governmental fund financial statements can be found in this report.

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

**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 in this report.

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund. These budgetary comparison statements are provided as required supplementary information in this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and is included as supplementary information in this report. Also included in the supplemental information is a schedule of instructional, administrative and other expenditures of governmental funds.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

**Net assets.** Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$ 13,730,607 as of June 30, 2006.

By far the largest portion of the District's net assets (45%) reflects its investment in capital assets (e.g., land, buildings, improvements other than buildings, mobile equipment, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

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

The following table presents a summary of the District's net assets for the fiscal year ended:

	<u>June 30,</u> <u>2006</u>	<u>June 30,</u> <u>2005</u>
Current assets	\$ 8,816,759	7,539,323
Capital assets, net	11,227,085	11,493,756
<b>Total Assets</b>	<u>20,043,844</u>	<u>19,033,079</u>
Current liabilities	1,436,542	1,372,366
Long-term debt outstanding	4,876,695	5,233,663
<b>Total Liabilities</b>	<u>6,313,237</u>	<u>6,606,029</u>
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	6,147,649	6,075,757
Restricted	3,109,074	2,717,031
Unrestricted	4,473,884	3,634,262
<b>Total Net Assets</b>	<u>\$ 13,730,607</u>	<u>12,427,050</u>

The following is a significant current year transaction that had an impact on the Statement of Net Assets during the year ending June 30, 2006:

- Long-term debt principal of \$338,563 was retired.

**Changes in net assets.** The District's total revenues for the fiscal year ended June 30, 2006, were \$20,847,017. This represents an increase of \$1,561,864, or 8.10%, from the prior year. The total cost of all programs and services was \$19,543,460. This represents an increase of \$1,448,624, or 8.01%, from the prior year. The following table presents a summary of the changes in net assets for the fiscal year ended:

	<u>June 30,</u> <u>2006</u>	<u>June 30,</u> <u>2005</u>
<b>Revenues:</b>		
Program revenues:		
Charge for services	\$ 668,570	714,399
Operating grants and contributions	3,534,171	3,327,197
General revenues:		
Property taxes	2,139,529	2,068,810
Grants and contributions not restricted	14,055,180	12,725,047
Other	449,567	449,700
<b>Total Revenues</b>	<u>20,847,017</u>	<u>19,285,153</u>
<b>Expenses:</b>		
Instruction	12,938,879	11,856,370
Support services	4,923,475	4,614,416
Non-instructional	1,443,744	1,347,796
Sixteenth section	28,509	34,471
Interest and other expenses on long-term liabilities	207,670	240,584
Other debt service	1,183	1,199
<b>Total Expenses</b>	<u>19,543,460</u>	<u>18,094,836</u>
<b>Increase in Net Assets</b>	<u>\$ 1,303,557</u>	<u>1,190,317</u>

**Governmental activities.** The following table presents the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section interest, interest and other expenses on long-term liabilities for the years ending June 30, 2006 and June 30, 2005. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and District's taxpayers by each of these functions.

	<u>Total Expenses</u>		<u>Total Net (Expense) Revenue</u>	
	<u>June 30,</u> <u>2006</u>	<u>June 30,</u> <u>2005</u>	<u>June 30,</u> <u>2006</u>	<u>June 30,</u> <u>2005</u>
Instruction	\$ 12,938,879	11,856,370	(11,225,913)	( 9,906,346)
Support services	4,923,475	4,614,416	( 3,857,500)	( 3,914,257)
Non-instructional	1,443,744	1,347,796	( 47,969)	( 9,048)
Sixteenth section	28,509	34,471	( 484)	18,194
Interest and other expenses on long-term liabilities	207,670	240,584	( 207,670)	( 240,584)
Other debt service	1,183	1,199	( 1,183)	( 1,199)
<b>Total Expenses</b>	<u>\$ 19,543,460</u>	<u>18,094,836</u>	<u>(15,340,719)</u>	<u>(14,053,240)</u>

- Net cost of governmental activities (\$15,340,719) was financed by general revenue, which is made up of primarily property taxes (\$2,139,529), state revenue (\$12,784,531), and federal revenue (\$1,270,649).
- Investment earnings accounted for \$94,858 of funding.

## **FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$7,795,848, an increase of \$1,227,114, due to ongoing revenues increasing at a greater rate than ongoing expenses during the fiscal year. \$7,025,214 or 90% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$770,634 or 10% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$840,287. The increase was a result of total revenues outpacing total expenses. The fund balance of the Sixteenth Section Interest Fund increased \$209,532 during the year. The only other major fund, Title I Part A Basic, had no remaining fund balance for the year ending June 30, 2006. The fund balance of Other Governmental Funds increased by \$177,295 due primarily to operating transfers in.

## **BUDGETARY HIGHLIGHTS**

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

- General Fund expenditures of the District on the comparison of final budget to actual expenditures were considerably less due to the District's on going effort to control cost.
- Title I Fund revenues of the District were less than the final and original budget due to less than expected revenues, expenditures were reduced accordingly.

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

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of June 30, 2006, the District's total capital assets were \$18,036,403, including school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$215,625 from the previous year. Total accumulated depreciation as of June 30, 2006 was \$6,809,318 and total depreciation expense for the year was \$528,238 resulting in total net assets of \$11,227,085.

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

**Debt Administration.** At June 30, 2006, the District had \$5,229,328 in general obligation bonds and other long-term debt outstanding, of which \$352,633 is due within one year. The district retired \$338,563 of long-term debt during the year ended June 30, 2006.

The District maintains an AA- bond rating.

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

## **CURRENT ISSUES**

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

The District has committed itself to financial excellence for many years. The millage remained at 30.32 mills for the year ending June 30, 2006. In addition, the District's system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

The District has experienced steady growth over the past five years. Latest enrollment figures indicate that student enrollment in the District will remain relatively steady next year. The budget for the next fiscal year has taken this into account in both funding and staffing needs.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

If you have questions about this report, contact the Superintendent's Office of the Neshoba County School District, P. O. Drawer 388, Philadelphia, MS 39350.

**NESHOBA COUNTY SCHOOL DISTRICT**

**FINANCIAL STATEMENTS**

**NESHOBA COUNTY SCHOOL DISTRICT**  
**Statement of Net Assets**  
**June 30, 2006**

	<b>Primary Government Governmental Activities</b>
<b>Assets</b>	
Cash and cash equivalents (Note 3 )	\$ 7,673,409
Due from other governments	578,977
Lease receivable, net	6,299
Inventories and prepaid items	18,380
Restricted assets	539,694
Capital assets, not being depreciated:	
Land	171,804
Capital assets, net of accumulated depreciation:	
Buildings	7,960,373
Improvements other than building	1,829,007
Mobile equipment	1,171,198
Furniture and euqipment	94,703
Total Assets	\$ 20,043,844
<b>Liabilities</b>	
Accounts payable and accrued liabilities	\$ 1,008,116
Deferred revenue	12,795
Interest payable on long-term liabilities	62,998
Long-term liabilities, due within one year (Note 6)	
Capital related liabilities	352,633
Long-term liabilities, due beyond one year (Note 6)	
Capital related liabilities	4,726,803
Non-capital related liabilities	149,892
Total Liabilities	\$ 6,313,237
<b>Net Assets</b>	
Investment in capital assets, net of related debt	\$ 6,147,649
Restricted net assets:	
Expendable:	
School - based activities	2,263,112
Debt service	638,544
Forestry improvements	134,629
Unemployment benefits	50,712
Non-expendable:	
Sixteenth section	22,077
Unrestricted	4,473,884
Total Net Assets	\$ 13,730,607

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

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities
Primary Government:					
Governmental Activities:					
Instruction	\$ 12,938,879	192,311	1,520,655		(11,225,913)
Support services	4,923,475		1,065,975		(3,857,500)
Non-instructional	1,443,744	448,234	947,541		(47,969)
Sixteenth section	28,509	28,025			(484)
Interest and other expenses on long-term liabilities	207,670			-	(207,670)
Other debt service	1,183				(1,183)
Total governmental activities	\$ 19,543,460	668,570	3,534,171	-	(15,340,719)

General Revenues:

Taxes:	
General purpose levies	\$ 2,139,529
Unrestricted grants and contributions:	
State	12,784,531
Federal	1,270,649
Unrestricted investment earnings	94,858
Sixteenth section sources	227,415
Other	127,294
Total General Revenues	16,644,276

Total General Revenues, Special Items

Extraordinary Items and Transfers	16,644,276
Change in Net Assets	1,303,557
Net Assets - Beginning	12,427,050
Net Assets - Ending	\$ 13,730,607

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

**NESHOBA COUNTY SCHOOL DISTRICT**  
**Balance Sheet - Governmental Funds**  
**June 30, 2006**

	<u>Major Funds</u>				
	<u>General Fund</u>	<u>Title I Grants to Local Education Agencies Fund</u>	<u>Sixteenth Section Interest Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Cash and cash equivalents (Note 3)	\$ 5,038,809	60,917	1,636,918	958,842	7,695,486
Cash with fiscal agents (Note 3)				517,617	517,617
Due from other governments	272,002	79,090		227,885	578,977
Lease receivable, net			6,299		6,299
Due from other funds (Note 4)	129,914				129,914
Inventories and prepaid items				18,380	18,380
<b>Total Assets</b>	<b>\$ 5,440,725</b>	<b>140,007</b>	<b>1,643,217</b>	<b>1,722,724</b>	<b>8,946,673</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable and accrued liabilities	\$ 816,949	60,917	1,611	128,639	1,008,116
Due to other funds (Note 4)		79,090		50,824	129,914
Deferred revenue				12,795	12,795
<b>Total Liabilities</b>	<b>816,949</b>	<b>140,007</b>	<b>1,611</b>	<b>192,258</b>	<b>1,150,825</b>
<b>Fund Balances:</b>					
<b>Reserved for:</b>					
Inventory				18,380	18,380
Unemployment benefits				50,712	50,712
Debt Service funds				701,542	701,542
<b>Unreserved:</b>					
<b>Undesignated, reported in:</b>					
General fund	4,623,776				4,623,776
Special Revenue funds			1,641,606	737,755	2,379,361
Permanent funds				22,077	22,077
<b>Total Fund Balances</b>	<b>4,623,776</b>		<b>1,641,606</b>	<b>1,530,466</b>	<b>7,795,848</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 5,440,725</b>	<b>140,007</b>	<b>1,643,217</b>	<b>1,722,724</b>	<b>8,946,673</b>

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

**NESHOBA COUNTY SCHOOL DISTRICT**  
**Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets**  
**June 30, 2006**

	<u>Amount</u>
<b>Total Fund Balance - Governmental Funds</b>	\$ 7,795,848
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>	
1. Capital assets are used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$11,493,756	11,227,085
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds (Note 6 )	(5,229,328)
3. Accrued interest payable is not due and payable in the current period and therefore are not reported in the funds	<u>(62,998)</u>
<b>Total Net Assets - Governmental Activities</b>	<u>\$ 13,730,607</u>

**NESHOBA COUNTY SCHOOL DISTRICT**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2006**

	Major Funds					Total Governmental Funds
	General Fund	Title I Grants to Local Ed. Agencies Fund	Sixteenth Section Interest Fund	Other Governmental Funds	Governmental Funds	
<b>Revenues:</b>						
Local sources	\$ 2,426,256			498,986	2,925,242	
State sources	12,427,817			919,918	13,347,735	
Federal sources	1,299,397	973,708		1,968,510	4,241,615	
Sixteenth section sources			244,033	29,679	273,712	
Total Revenues	16,153,470	973,708	244,033	3,417,093	20,788,304	
<b>Expenditures:</b>						
Instruction	10,727,068	623,785		1,373,362	12,724,215	
Support services	4,057,438	232,250		577,696	4,867,384	
Noninstructional services		99,980		1,306,127	1,406,107	
Sixteenth section			17,918	10,591	28,509	
Facilities acquisition and construction	30,482				30,482	
Debt service:						
Principal	11,073			327,490	338,563	
Interest				212,886	212,886	
Other				1,183	1,183	
Total Expenditures	14,826,061	956,015	17,918	3,809,335	19,609,329	
Excess (Deficiency) of Revenues Over Expenditures	1,327,409	17,693	226,115	(392,242)	1,178,975	
<b>Other Financing Sources (Uses):</b>						
Insurance loss recoveries	59,084			1,463	60,547	
Sale of transportation equipment	1,500				1,500	
Operating transfers in	680,575			587,912	1,268,487	
Other financing sources				58,500	58,500	
Operating transfers out	(1,228,281)	(17,693)	(16,583)	(5,930)	(1,268,487)	
Other financing uses				(58,500)	(58,500)	
Total Other Financing Sources (Uses)	(487,122)	(17,693)	(16,583)	583,445	62,047	
Net Change in Fund Balances	840,287	0	209,532	191,203	1,241,022	
<b>Fund Balances:</b>						
July 1, 2005	3,783,489	0	1,432,074	1,353,171	6,568,734	
Increase (decrease) in reserve for inventory				(13,908)	(13,908)	
June 30, 2006	\$ 4,623,776	0	1,641,606	1,530,466	7,795,848	

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

**NESHOBA COUNTY 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**

	<u>Amount</u>
<b>Net Change in Fund Balances - Governmental Funds</b>	<b>\$ 1,241,022</b>
Amounts reported for governmental activities in the statement of activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchase amounted to \$264,901 and the depreciation expense amounted to \$528,238. (Note 5)	(263,337)
2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of activity. (Note 6)	338,563
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 the following item:	
Losses on sales of capital assets	(1,834)
Proceeds from sales of capital assets	(1,500)
4. 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:	
Increase in accrued compensated absences	(665)
Increase in accrued interest on bonds	5,216
5. Decrease in inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are increased in the Statement of Activities.	<u>(13,908)</u>
<b>Change in Net Assets of Governmental Activities</b>	<b>\$ <u><u>1,303,557</u></u></b>

NESHOBA COUNTY SCHOOL DISTRICT  
Statement of Fiduciary Net Assets  
June 30, 2006

	<u>Private- Purpose Trust Funds</u>	<u>Agency Funds</u>
<b>Assets</b>		
Cash and cash equivalents (Note 3)	\$ 58,841	121,427
Total Assets	\$ 58,841	121,427
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$	681
Due to student clubs	_____	120,746
Total Liabilities	\$ _____	121,427
<b>Net Assets</b>		
Reserved for endowments Held in trust	\$ 58,841	
Total Net Assets	\$ 58,841	

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

**NESHOBA COUNTY SCHOOL DISTRICT  
Statement of Changes in Fiduciary Net Assets  
For the year ended June 30, 2006**

	<b><u>Private-Purpose Trust Funds</u></b>
<b>Additions</b>	
Interest on investments	\$ 482
Contributions and donations from private sources	<u>20,000</u>
Total Additions	<u>20,482</u>
<b>Deductions</b>	
Scholarships awarded	<u>1,500</u>
Total Deductions	<u>1,500</u>
Change in Net Assets	<u>18,982</u>
<b>Net Assets</b>	
July 1, 2005	<u>39,859</u>
June 30, 2006	<u>\$ 58,841</u>

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

**NESHOBA COUNTY SCHOOL DISTRICT**

**Notes to financial statements  
For the Year Ended June 30, 2006**

**(1) Summary of Significant Accounting Policies.**

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

**A. Financial Reporting Entity.**

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

**B. Basis of Presentation.**

The school district's basic financial statement consists 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

## NESHOBA COUNTY SCHOOL DISTRICT

### Notes to financial statements For the Year Ended June 30, 2006

capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the school district, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the school district.

#### *Fund Financial Statements:*

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

#### 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.

# NESHOBA COUNTY SCHOOL DISTRICT

## Notes to financial statements For the Year Ended June 30, 2006

The school district reports the following major governmental funds:

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

**Title I Grants to Local Education Agencies Fund** – This is a special revenue fund that is used to ensure proper disbursement of, and accounting for, Title I, Grants to Local Education Agencies revenues received by the district.

**Sixteenth Section Interest Fund** – This fund accounts for the expendable funds derived from sixteenth section or lieu lands.

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

Additionally, the school district reports the following fund types:

### GOVERNMENTAL FUNDS

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

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

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

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

### FIDUCIARY FUNDS

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

## NESHOBA COUNTY SCHOOL DISTRICT

### Notes to financial statements For the Year Ended June 30, 2006

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

D. Account Classifications.

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

E. Encumbrances.

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

F. Cash and Cash Equivalents.

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

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

G. Investments.

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

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

Investments are reported at fair value.

The school district did not own any investments at December 31, 2006.

**NESHOBA COUNTY SCHOOL DISTRICT**

**Notes to financial statements  
For the Year Ended June 30, 2006**

H. Inventories and Prepaid Items.

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

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

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

I. Capital Assets.

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

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

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

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

**NESHOBA COUNTY SCHOOL DISTRICT**

**Notes to financial statements  
For the Year Ended June 30, 2006**

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

J. Long-term liabilities.

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

K. Interfund Transactions and Balances.

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

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

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, construction or improvement of those assets.

## NESHOBA COUNTY SCHOOL DISTRICT

### Notes to financial statements For the Year Ended June 30, 2006

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

#### *Fund Financial Statements:*

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

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

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

#### 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.

## NESHOBA COUNTY SCHOOL DISTRICT

### Notes to financial statements For the Year Ended June 30, 2006

O. **Compensated Absences.**

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

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

(2) **Changes in Accounting Standards**

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

(3) **Cash and Cash Equivalents, Cash with Fiscal Agents.**

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

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

**NESHOBA COUNTY SCHOOL DISTRICT**

**Notes to financial statements  
For the Year Ended June 30, 2006**

Cash and Cash Equivalents.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$7,695,486 and \$180,268, respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and cash equivalents \$7,673,409 and Restricted Assets \$539,694. The Restricted Assets represents the cash balance of sixteenth section principal funds (permanent funds) in the amount of \$22,077 MAEP funds (other governmental funds) in the amount of \$517,617 which are legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$9,548,091.

Cash with Fiscal Agents.

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$517,617.

Custodial Credit Risk – Deposits.

Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2006, \$0 of the district's bank balance of \$9,548,091 was exposed to custodial credit risk.

**(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>
General Fund	\$ 129,914	-
Title I Grants	-	79,090
Other governmental funds	-	<u>50,824</u>
 Total Funds	 <u>\$ 129,914</u>	 <u>129,914</u>

**NESHOBA COUNTY SCHOOL DISTRICT**

**Notes to financial statements  
For the Year Ended June 30, 2006**

B. Transfers In/Out:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 680,575	1,228,281
Title I, Grants to Local Education Agencies		17,693
Sixteenth section interest fund		16,583
Other governmental funds	<u>587,912</u>	<u>5,930</u>
 Total Funds	 <u>\$ 1,268,487</u>	 <u>1,268,487</u>

(5) **Capital Assets.**

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

	<u>Balance 7-1-2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	<u>Balance 6-30-2006</u>
<u>Non-depreciable capital assets:</u>					
Land	\$ 171,804				171,804
 Total non-depreciable capital assets	 <u>171,804</u>	 <u>-</u>	 <u>-</u>	 <u>-</u>	 <u>171,804</u>
 <u>Depreciable capital assets:</u>					
Buildings	11,962,266				11,962,266
Improvements other than buildings	2,440,072	30,482		(33,673)	2,436,881
Mobile equipment	2,800,652	167,487	( 31,569)		2,936,570
Furniture and equipment	445,984	66,932	( 17,707)	33,673	528,882
 Total depreciable capital assets	 <u>17,648,974</u>	 <u>264,901</u>	 <u>( 49,276)</u>	 <u>33,673</u>	 <u>17,864,599</u>

**NESHOBA COUNTY SCHOOL DISTRICT**

**Notes to financial statements  
For the Year Ended June 30, 2006**

	Balance 7-1-2005	Additions	Retirements	Adjustments	Balance 6-30-2006
<u>Less accumulated depreciation for:</u>					
Buildings	\$ 3,785,840	216,053			4,001,893
Improvements other than buildings	513,346	94,528			607,874
Mobile equipment	1,618,580	175,204	(28,412)		1,765,372
Furniture and equipment	409,256	42,453	(17,530)		434,179
Total accumulated depreciation	6,327,022	528,238	(45,942)		6,809,318
Total depreciable capital assets, net	11,321,952	(263,337)	( 3,334)		11,055,281
Governmental activities capital assets, net	\$ <u>11,493,756</u>	<u>(263,337)</u>	<u>( 3,334)</u>	<u>-</u>	<u>11,227,085</u>

Adjustment was due to reclassification of asset.

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 214,205
Support services	290,357
Non-instructional	23,676
Total Depreciation Expense	\$ 528,238

**(6) Long-term liabilities.**

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

	Balance 7-1-2005	Additions	Reductions	Adjustments	Balance 6-30-2006	Amounts due within one year
A. Limited obligation school notes	\$ 240,000		80,000		160,000	80,000
B. Limited obligation bonds payable	3,315,000		170,000		3,145,000	180,000
C. Obligations under energy efficiency lease	832,062		56,216		775,846	59,151

**NESHOBA COUNTY SCHOOL DISTRICT**

**Notes to financial statements  
For the Year Ended June 30, 2006**

	Balance 7-1-2005	Additions	Reductions	Adjustments	Balance 6-30-2006	Amounts due within one year
D. Qualified Zone Academy bonds payable	800,000				800,000	
E. Other loans payable	230,937		32,347		198,590	33,482
F. Compensated absences payable	149,227	665			149,892	
<b>Total</b>	<b>\$ 5,567,226</b>	<b>665</b>	<b>338,563</b>	<b>-</b>	<b>5,229,328</b>	<b>352,633</b>

A. Limited obligation school note.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Limited obligation					
School note	Varies	4-1-98	4-1-08	\$ 1,135,000	160,000
<b>Total</b>				<b>\$ 1,135,000</b>	<b>160,000</b>

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

Year Ending June 30	Principal	Interest	Total
2007	\$ 80,000	7,739	87,739
2008	80,000	3,986	83,986
<b>Total</b>	<b>\$ 160,000</b>	<b>11,725</b>	<b>171,725</b>

The state aid capital improvement bonds are secured by an irrevocable pledge of certain revenues the district receives from the State of Mississippi pursuant to the Mississippi Accountability and Adequate Education Program Act, Sections 37-151-1 through 37-151-7, Miss. Code Ann. (1972). The state aid capital improvement bonds are not included in the computation of the debt limit percentage. This debt will be retired from the MAEP Long-term Pledge fund.

**NESHOBA COUNTY SCHOOL DISTRICT**

**Notes to financial statements  
For the Year Ended June 30, 2006**

B. Limited obligation bonds payable.

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
State aid capital Improvement	Varies	2-1-98	2-1-18	\$ 4,285,000	3,145,000
Total				<u>\$ 4,285,000</u>	<u>3,145,000</u>

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 180,000	142,495	322,495
2008	190,000	132,135	322,135
2009	195,000	121,355	316,355
2010	205,000	111,385	316,385
2011	215,000	102,038	317,038
2012 – 2016	1,250,000	350,775	1,600,775
2017 – 2018	910,000	55,913	965,913
Total	<u>\$ 3,145,000</u>	<u>1,016,096</u>	<u>4,161,096</u>

The state aid capital improvement bonds are secured by an irrevocable pledge of certain revenues the district receives from the state of Mississippi pursuant to the Mississippi Accountability and Adequate Education Program Act, Sections 37-151-1 through 37-151-7, Miss. Code Ann. (1972). The state aid capital improvement bonds are not included in the computation of the debt limit percentage. This debt will be retired from the MAEP Paying Agent fund.

**NESHOBA COUNTY SCHOOL DISTRICT**

**Notes to financial statements  
For the Year Ended June 30, 2006**

C. Obligations under energy efficiency lease.

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

Year Ending June 30	Principal	Interest	Total
2007	\$ 59,151	38,198	97,349
2008	62,239	35,110	97,349
2009	65,489	31,861	97,350
2010	68,908	28,441	97,349
2011	72,506	24,844	97,350
2012 - 2016	423,421	63,326	486,747
2017	24,132	205	24,337
Total	<u>\$ 775,846</u>	<u>221,985</u>	<u>997,831</u>

An energy efficiency lease agreement dated September 25, 2001, was executed by and between the district, the lessee, and Trustmark National Bank, the lessor.

The agreement authorized the borrowing of \$1,000,000 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 Energy Efficiency Lease Fund and not exceed fifteen (15) years.

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

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

This debt will be retired from the Energy Efficiency Lease Fund.

D. Qualified zone academy bonds payable.

As more fully explained in Note 11 debt has been issued by the school district that qualifies as Qualified Zone Academy bonds. Debt currently outstanding is as follows:

**NESHOBA COUNTY SCHOOL DISTRICT**

**Notes to financial statements  
For the Year Ended June 30, 2006**

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Qualified Zone Academy bond	0.00%	5-15-01	5-15-11	\$ 800,000	800,000
Total				\$ 800,000	800,000

This debt will be retired from the QZAB Bond Retirement Fund.

E. Other loans payable.

The school district has issued debt instruments granted under the authority of Sections 37-59-101, Miss. Code Ann. (1972).

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Note payable Citizens Bank (Blount Bldg. note)	5.2%	4-3-02	4-10-12	\$ 230,350	148,760
Asbestos abatement loan payable	0.00%	4-19-91	5-31-10	83,049	49,830
Total				\$ 313,399	198,590

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

Year Ending June 30	Principal	Interest	Total
2007	\$ 33,482	7,217	40,699
2008	34,677	6,022	40,699
2009	35,936	4,763	40,699
2010	37,262	3,437	40,699
2011	33,122	2,040	35,162
2012	24,111	579	24,690
Total	\$ 198,590	24,058	222,648

This debt will be retired from the Blount Building fund and the District Maintenance fund.

## NESHOBA COUNTY SCHOOL DISTRICT

### Notes to financial statements For the Year Ended June 30, 2006

F. 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 \$1,210,895, \$1,023,254, and \$962,375, respectively, which equaled the required contributions for each year.

(8) **Other Commitments.**

The school district has several operating leases for the following:

1. Toshiba E-Studio 35 Copier
2. Risograph RN2000 Digital Duplicator
3. Toshiba 35 CPM Digital Copier System
4. Toshiba E-35 Copier
5. 2005 Chevy Impala 4-Door

**NESHOBA COUNTY SCHOOL DISTRICT**

**Notes to financial statements  
For the Year Ended June 30, 2006**

Lease expenditures for the year ended June 30, 2006, amounted to \$13,333. Future lease payments for these leases are as follows:

Year Ending June 30	Amount
2007	\$ 9,783
2008	3,981
Total	<u>\$ 13,764</u>

**(9) Sixteenth Section Lands.**

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

Year Ending June 30	Amount
2007	\$ 65,881
2008	64,490
2009	53,148
2010	47,592
2011	40,692
2012 – 2016	193,716
2017 – 2021	192,740
2022 – 2026	192,535
2027 – 2031	148,793
Thereafter	281,367
Total	<u>\$ 1,280,954</u>

## NESHOBA COUNTY SCHOOL DISTRICT

### Notes to financial statements For the Year Ended June 30, 2006

#### (10) Risk Management.

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

##### Participation in Public Entity Risk Pool.

The school district is a member of the Mississippi Public Entity Workers' Compensation Trust (MPEWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust 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 member. Each member of MPEWCT contributes quarterly to a fund held in trust. The funds in the trust account are used to pay any claim up to \$350,000. For a claim exceeding \$350,000, MPEWCT has insurance which will pay the excess up to \$1,000,000. If total claims during a year were to deplete the trust account, then the pool members would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

#### (11) Qualified Zone Academy Bonds.

Section 226 of the Taxpayer Relief Act of 1997 (Public Law 105-34) provides for a source of capital at no or nominal interest rates for costs incurred by certain public schools in connection with the establishment of special academic programs from kindergarten through secondary school, in partnership with the business community. The school district, in agreement with Weyerhaeuser, Mid South Insurance Company and Neshoba Education Foundation, has entered into such an arrangement dated May 15, 2001.

In this arrangement, each partner agreed to contribute to the district in the form of a grant on July 1, 2001, for the benefit of the Qualified Zone Academy. The partners, Weyerhaeuser, Mid South Insurance and Neshoba Education Foundation, made contributions in the amount of \$60,000, \$10,000, and \$12,000, respectively.

**NESHOBA COUNTY SCHOOL DISTRICT**

**Notes to financial statements  
For the Year Ended June 30, 2006**

This agreement establishes a method of repayment for a qualified interest-free debt instrument. The agreement requires the school district to deposit funds annually into a sinking fund account on or before May 15. The amount accumulated in the sinking fund at the end of the ten-year period will be sufficient to retire the debt. The following schedule reports the yearly deposits to be made to the sinking fund by the school district.

<u>Year Ending June 30</u>	<u>Amount</u>
2007	\$ 58,000
2008	58,000
2009	58,000
2010	50,000
2011	<u>49,000</u>
Total	\$ <u><u>273,000</u></u>

**NESHOBA COUNTY SCHOOL DISTRICT**

**REQUIRED SUPPLEMENTAL INFORMATION**

**NESHOBA COUNTY SCHOOL DISTRICT**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended June 30, 2006**

	<b>Budgeted Amounts</b>		<b>Actual (GAAP Basis)</b>	<b>Variances Positive (Negative)</b>	
	<b>Original</b>	<b>Final</b>		<b>Original to Final</b>	<b>Final to Actual</b>
<b>Revenues:</b>					
Local sources	\$ 2,677,895	2,426,241	2,426,256	(251,654)	15
State sources	12,540,419	12,427,816	12,427,817	(112,603)	1
Federal sources	1,038,000	1,299,397	1,299,397	261,397	
Total Revenues	<u>16,256,314</u>	<u>16,153,454</u>	<u>16,153,470</u>	<u>(102,860)</u>	<u>16</u>
<b>Expenditures:</b>					
Instruction	10,701,600	11,034,590	10,727,068	(332,990)	307,522
Support services	5,101,435	4,390,347	4,057,438	711,088	332,909
Noninstructional services		1,000		(1,000)	1,000
Facilities acquisition and construction		102,810	30,482	(102,810)	72,328
Debt service:					
Principal	12,000	11,100	11,073	900	27
Total Expenditures	<u>15,815,035</u>	<u>15,539,847</u>	<u>14,826,061</u>	<u>275,188</u>	<u>713,786</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>441,279</u>	<u>613,607</u>	<u>1,327,409</u>	<u>172,328</u>	<u>713,802</u>
<b>Other Financing Sources (Uses):</b>					
Insurance loss recoveries		59,083	59,084	59,083	1
Sale of transportation equipment		1,500	1,500	1,500	
Operating transfers in	1,745,221	680,576	680,575	(1,064,645)	(1)
Operating transfers out	(2,523,971)	(1,253,281)	(1,228,281)	1,270,690	25,000
Other financing uses					
Total Other Financing Sources (Uses)	<u>(778,750)</u>	<u>(512,122)</u>	<u>(487,122)</u>	<u>266,628</u>	<u>25,000</u>
Net Change in Fund Balances	<u>(337,471)</u>	<u>101,485</u>	<u>840,287</u>	<u>438,956</u>	<u>738,802</u>
<b>Fund Balances:</b>					
July 1, 2005	<u>4,085,503</u>	<u>3,783,489</u>	<u>3,783,489</u>	<u>(302,014)</u>	
June 30, 2006	<u>\$ 3,748,032</u>	<u>3,884,974</u>	<u>4,623,776</u>	<u>136,942</u>	<u>738,802</u>

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

**NESHOBA COUNTY SCHOOL DISTRICT**  
**Budgetary Comparison Schedule**  
**Title I Grants to Local Education Agencies Fund**  
**For the Year Ended June 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variances Positive (Negative)</u>	
	<u>Original</u>	<u>Final</u>		<u>Original to Final</u>	<u>Final to Actual</u>
<b>Revenues:</b>					
Federal sources	\$ 989,131	1,102,536	973,708		(128,828)
Total Revenues	<u>989,131</u>	<u>1,102,536</u>	<u>973,708</u>	<u>0</u>	<u>(128,828)</u>
<b>Expenditures:</b>					
Instruction	800,000	690,212	623,785		66,427
Support services	189,131	287,189	232,250		54,939
Noninstructional services		107,442	99,980		7,462
Total Expenditures	<u>989,131</u>	<u>1,084,843</u>	<u>956,015</u>	<u>0</u>	<u>128,828</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>0</u>	<u>17,693</u>	<u>17,693</u>	<u>0</u>	<u>0</u>
<b>Other Financing Sources (Uses):</b>					
Operating transfers out		(17,693)	(17,693)		0
Total Other Financing Sources (Uses)	<u>0</u>	<u>(17,693)</u>	<u>(17,693)</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Fund Balances:</b>					
July 1, 2005	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
June 30, 2006	<u>\$ 0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

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

**NESHOBA COUNTY SCHOOL DISTRICT**  
**Budgetary Comparison Schedule**  
**Sixteenth Section Interest Fund**  
**For the Year Ended June 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>(GAAP Basis)</u>	<u>Variances</u> <u>Positive</u> <u>(Negative)</u>	
	<u>Original</u>	<u>Final</u>		<u>Original</u> <u>to Final</u>	<u>Final</u> <u>to Actual</u>
<b>Revenues:</b>					
Sixteenth section sources	\$ 62,000	243,328	244,033	181,328	705
Total Revenues	<u>62,000</u>	<u>243,328</u>	<u>244,033</u>	<u>181,328</u>	<u>705</u>
<b>Expenditures:</b>					
Sixteenth section	0	20,398	17,918	(20,398)	2,480
Total Expenditures	<u>0</u>	<u>20,398</u>	<u>17,918</u>	<u>(20,398)</u>	<u>2,480</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>62,000</u>	<u>222,930</u>	<u>226,115</u>	<u>160,930</u>	<u>3,185</u>
<b>Other Financing Sources (Uses):</b>					
Operating transfers out	(12,000)	(16,584)	(16,583)	(4,584)	1
Total Other Financing Sources (Uses)	<u>(12,000)</u>	<u>(16,584)</u>	<u>(16,583)</u>	<u>(4,584)</u>	<u>1</u>
Net Change in Fund Balances	<u>50,000</u>	<u>206,346</u>	<u>209,532</u>	<u>156,346</u>	<u>3,186</u>
<b>Fund Balances:</b>					
July 1, 2005	<u>1,447,732</u>	<u>1,432,074</u>	<u>1,432,074</u>	<u>(15,658)</u>	<u>0</u>
June 30, 2006	<u>\$ 1,497,732</u>	<u>1,638,420</u>	<u>1,641,606</u>	<u>140,688</u>	<u>3,186</u>

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

**NESHOBA COUNTY SCHOOL DISTRICT**

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

Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(2) Budget amendments and revisions.

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

**NESHOBA COUNTY SCHOOL DISTRICT**

**SUPPLEMENTAL INFORMATION**

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

<b>Federal Grantor/ Pass-through Grantor/ Program Title</b>	<b>Catalog Of Federal Domestic Assistance No.</b>	<b>Federal Expenditures</b>
<b><u>U.S. Department of Agriculture</u></b>		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	\$ <u>64,559</u>
Child Nutrition cluster:		
School breakfast program	10.553	153,890
National school lunch program	10.555	<u>601,198</u>
Total child nutrition cluster		<u>755,088</u>
Total U.S. Department of Agriculture		<u>819,647</u>
<b><u>Federal Communications Commission</u></b>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.XXX	<u>53,056</u>
Total Federal Communications Commission		<u>53,056</u>
<b><u>U.S. Department of Defense</u></b>		
Direct Program:		
Reserve Officers' Training Corps	12.XXX	<u>56,913</u>
Total U.S. Department of Defense		<u>56,913</u>
<b><u>U.S. Department of Education</u></b>		
Direct Programs:		
Impact Aid	84.041	<u>400,000</u>
Total		<u>400,000</u>
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	973,708
Vocational Education - basic grants to states	84.048	40,273
Indian education - grants to local educational agencies	84.060	63,330
Safe and drug-free schools and communities - state grants	84.186	30,391
Even start - state educational agencies	84.213	2,840
Grants for state assessments and related activities	84.369	18,356
Education technology state grants	84.318	22,515
Rural Education	84.358	107,645
Improving teacher quality - state grants	84.367	<u>231,153</u>
Total		<u>1,490,211</u>
Special Education cluster:		
Special Education - grants to states	84.027	544,409
Special Education - preschool grants	84.173	<u>25,805</u>
Total		<u>570,214</u>
Total passed-through Mississippi Department of Education		<u>2,060,425</u>
Total U.S. Department of Education		<u>2,460,425</u>
<b>Total for All Federal Awards</b>		<b>\$ <u>3,390,041</u></b>

**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.

**NESHOPA COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF INSTRUCTIONAL, ADMINISTRATIVE**  
**AND OTHER EXPENDITURES - GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

Expenditures	Total	Instruction and Other			
		Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 15,221,042	11,920,887	686,762	630,077	1,983,316
Other	4,388,287	1,666,798	165,170	72,495	2,483,824
Total	\$ 19,609,329	13,587,685	851,932	702,572	4,467,140
Total number of students	2,839				
Cost per student	\$ 6,907	4,786	300	247	1,573

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

**Instruction and Other Student Instructions 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, and 2200 functional codes)

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

**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.

**NESHOBA COUNTY SCHOOL DISTRICT**

**REPORTS ON INTERNAL CONTROLS AND COMPLIANCE**



**WATKINS, WARD and STAFFORD**  
 Professional Limited Liability Company  
 Certified Public Accountants

James L. Stafford, CPA  
 Harry W. Stevens, CPA  
 Paul A. Ray, CPA  
 S. Keith Winfield, CPA  
 William B. Stagers, CPA  
 Aubrey R. Holder, CPA  
 David M. Howell, CPA  
 Michael W. McCully, CPA  
 Mort Stroud, CPA  
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 R. Steve Sinclair, CPA

Michael L. Pierce, CPA  
 Marsha L. McDonald, CPA  
 Wanda S. Holley, CPA  
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 J. Randy Scrivner, CPA  
 Kimberly S. Caskey, CPA  
 Susan M. Lummus, CPA  
 Thomas J. Browder, CPA  
 Stephen D. Flake, CPA  
 John N. Russell, CPA  
 Kenny Dickerson, CPA

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

Superintendent and School Board  
 Neshoba County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Neshoba County School District as of and for the year ended June 30, 2006, which collectively comprise the Neshoba County School District's basic financial statements and have issued our report thereon dated December 14, 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 did not note any matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws,

regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Watkins, Ward and Stafford, PLLC  
Philadelphia, Mississippi  
December 14, 2006

*Watkins, Ward and Stafford, PLLC*



**WATKINS, WARD and STAFFORD**

Professional Limited Liability Company  
Certified Public Accountants

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**INDEPENDENT AUDITORS' 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  
Neshoba County School District

Compliance

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

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

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

Internal Control Over Compliance

The management of the Neshoba County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the school district's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing 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 did not note any matters involving internal control over compliance and its operation that we consider to be material weaknesses.

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

Watkins, Ward and Stafford, PLLC  
Philadelphia, Mississippi  
December 14, 2006

*Watkins, Ward and Stafford, PLLC*

**NESHOBA COUNTY SCHOOL DISTRICT**

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
STATE LAWS AND REGULATIONS**



**WATKINS, WARD and STAFFORD**  
 Professional Limited Liability Company  
 Certified Public Accountants

James L. Sta...ord, CPA  
 Harry W. Stevens, CPA  
 Paul A. Ray, CPA  
 S. Keith Winfield, CPA  
 William B. Stagers, CPA  
 Aubrey R. Holder, CPA  
 David M. Howell, CPA  
 Michael W. McCully, CPA  
 Mort Stroud, CPA  
 Gary C. Hamilton, CPA  
 R. Steve Sinclair, CPA

Michael L. Pierce, CPA  
 Marsha L. McDonald, CPA  
 Wanda S. Holley, CPA  
 Robin Y. McCormick, CPA/PFS  
 J. Randy Scrivner, CPA  
 Kimberly S. Caskey, CPA  
 Susan M. Lummus, CPA  
 Thomas J. Browder, CPA  
 Stephen D. Flake, CPA  
 John N. Russell, CPA  
 Kenny Dickerson, CPA

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
 STATE LAWS AND REGULATIONS**

Superintendent and School Board  
 Neshoba County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Neshoba County School District as of and for the year ended June 30, 2006, which collectively comprise Neshoba County School District's basic financial statements and have issued our report thereon dated December 14, 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.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$165,354 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 did not disclose any instances of noncompliance with other state laws and regulations.

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

Watkins, Ward and Stafford, PLLC  
 Philadelphia, Mississippi  
 December 14, 2006

*Watkins, Ward and Stafford, PLLC*

**NESHOBA COUNTY SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**NESHOBA COUNTY SCHOOL DISTRICT**

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

Section 1: Summary of Auditors' Results

Financial Statements:

- |    |                                                                                       |             |
|----|---------------------------------------------------------------------------------------|-------------|
| 1. | Type of auditors' 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 auditors' 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 Circular A-133?   | No          |
| 7. | Federal programs identified as major programs:                                        |             |
| a. | Title I grants to local education agencies<br>CFDA #84.010                            |             |
| b. | Special Education cluster<br>CFDA #84.027<br>CFDA #84.173                             |             |
| 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         |

**NESHOPA COUNTY SCHOOL DISTRICT**

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

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 Award Findings and Questioned Costs

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

## NESHOBA COUNTY SCHOOL DISTRICT

### Financial & Compliance Audit Division

As required by Section \_\_.315(b) of OMB Circular A-133, the Neshoba County School District has prepared and hereby submits the following summary schedule of prior year audit findings as of June 30, 2006:

There were no applicable audit findings, therefore, no follow-up corrective action required.