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NETTLETON SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

June 30, 2006

M. M. WINKLER & ASSOCIATES
Certified Public Accountants
Tupelo, Mississippi

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

Superintendent and School Board
Nettleton School District

We have audited the accompanying financial statements of the of the governmental activities, each major fund and the aggregate remaining fund information of the Nettleton School District as of and for the year ended June 30, 2006, which collectively comprise the Nettleton School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Nettleton School District's management. Our responsibility is to express an 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 Nettleton School District, as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2007, on our consideration of the Nettleton 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 9 through 14 and the Budgetary Comparison Schedule and corresponding notes on pages 41 through 44 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 inquires 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.

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

- Continued -

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Nettleton School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. In addition, the Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

M. M. Winkler & Associates

July 27, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**NETTLETON SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2006**

The discussion and analysis of Nettleton 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 review this section in conjunction with the financial statements and notes to the financial statements to enhance their understanding of the School District's financial performance. 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 \$ 699,056, which represents a 14.62% increase from fiscal year 2005.
- General revenues account for \$ 7,943,087 in revenue, or 76.92% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$2,383,349 or 23.08% of total revenues.
- The District had \$9,627,380 in expenses; only \$2,383,349 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$7,943,087 were adequate to provide for these programs.
- Among major funds, the General Fund had \$8,242,594 in revenues and \$7,848,902 in expenditures. The General Funds fund balance increased \$393,692 over the prior year.
- Capital assets, net of accumulated depreciation, increased by \$ 349,751. Depreciation expense for the year was \$131,887.
- Long-term debt decreased by \$ 103,805. Due primarily to principal payments on general obligation bonds.

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.

**NETTLETON SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the Year Ended June 30, 2006

- Continued -

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, and interest on long-term liabilities.

The government-wide financial statements can be found on pages 17 - 18 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 20 and 22, respectively.

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

The basic governmental fund financial statements can be found on pages 19 - 22 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The school district's fiduciary activities are presented in separate Statements of Fiduciary Net Assets on page 23.

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 25 - 38 of this report.

**NETTLETON SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the Year Ended June 30, 2006

- Continued -

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund. This required supplementary information can be found on pages 41 - 44 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and a schedule of instructional, administrative and other expenditures for governmental funds can be found on pages 47 and 49, respectively, of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$ 5,482,179 as of June 30, 2006.

A large portion of the District's net assets (35.33%) reflects its investment in capital assets (e.g., land, buildings, improvements other than buildings, mobile equipment, furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

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

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

| | 2006 | 2005 | DOLLAR CHANGE | PERCENT CHANGE |
|--|----------------------------|----------------------------|--------------------------|----------------------|
| Current Assets | \$ 3,682,813 | \$ 3,429,616 | \$ 253,197 | 7.38% |
| Noncurrent Assets: | | | | |
| Restricted Assets | 195,047 | 80,657 | 114,390 | 141.82% |
| Capital Assets, net | <u>2,487,086</u> | <u>2,137,335</u> | <u>349,751</u> | <u>16.36%</u> |
| Total Assets | \$ <u>6,364,946</u> | \$ <u>5,647,608</u> | \$ <u>717,338</u> | <u>12.70%</u> |
| Current Liabilities | \$ 333,705 | \$ 236,618 | \$ 97,087 | 41.03% |
| Long-term Liabilities | <u>549,062</u> | <u>627,867</u> | (<u>78,805</u>) | (<u>12.55%</u>) |
| Total Liabilities | \$ <u>882,767</u> | \$ <u>864,485</u> | \$ <u>18,282</u> | <u>2.11%</u> |
| Net Assets: | | | | |
| Invested in Capital Assets, Net of Related Debt | \$ 1,937,086 | \$ 1,487,335 | \$ 449,751 | 30.24% |
| Restricted | 588,687 | 497,659 | 91,028 | 18.29% |
| Unrestricted | <u>2,956,406</u> | <u>2,798,129</u> | <u>158,277</u> | <u>5.66%</u> |
| Total Net Assets | \$ <u><u>5,482,179</u></u> | \$ <u><u>4,783,123</u></u> | \$ <u><u>699,056</u></u> | <u><u>14.62%</u></u> |

**NETTLETON SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the Year Ended June 30, 2006

- Continued -

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

- The current asset increase of \$ 253,197 was less than the 2005 fiscal year due to bathroom and walkway renovation projects and increases in teachers and courses offered in the district.
- The principal retirement of \$ 100,000 of long-term debt.
- An increase in retirement matching funds and increased state revenues due to mandated teacher pay raises generated a significant change in general revenues.
- State mandated salary increases and district salary increases increased expenses overall for the district.
- A significant change in current liabilities was due to renovation projects payables.
- A significant change in capital assets is due to renovation projects.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2006 were \$10,326,436. The total cost of all programs and services was \$ 9,627,380. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2006 and 2005.

| | 2006 | 2005 | DOLLAR CHANGE | PERCENT CHANGE |
|--|----------------------|----------------------|--------------------|-------------------|
| Program Revenues: | | | | |
| Charges for Services | \$ 566,852 | \$ 492,787 | \$ 74,065 | 15.03% |
| Operating Grants and Contributions | 1,816,497 | 1,702,782 | 113,715 | 6.68% |
| General Revenues: | | | | |
| Property Taxes | 1,243,901 | 1,199,454 | 44,447 | 3.71% |
| Grants and Contributions not Restricted | 6,607,129 | 6,153,737 | 453,392 | 7.37% |
| Other | 92,057 | 38,703 | 53,354 | 137.85 |
| Total Revenues | \$ 10,326,436 | \$ 9,587,463 | \$ 738,973 | 7.71% |
| Expenses: | | | | |
| Instruction | \$ 6,325,310 | \$ 5,782,042 | \$ 543,268 | 9.40% |
| Support Services | 2,600,045 | 2,495,876 | 104,169 | 4.17% |
| Non-instructional | 690,887 | 680,216 | 10,671 | 1.57% |
| Interest on Long-Term Liabilities | 11,138 | 15,737 | (4,599) | (29.22%) |
| Total Expenses | \$ 9,627,380 | \$ 8,973,871 | \$ 653,509 | 7.28% |
| Change in Net Assets | \$ 699,056 | \$ 613,592 | \$ 85,464 | 13.93% |
| Beginning Net Assets | 4,783,123 | 4,169,531 | 613,592 | 14.72% |
| Ending Net Assets | \$ 5,482,179 | \$ 4,783,123 | \$ 699,056 | 14.62% |

**NETTLETON SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the Year Ended June 30, 2006

- Continued -

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

| | 2005-2006 | | 2004-2005 | |
|-----------------------------------|---------------------|------------------------------|---------------------|------------------------------|
| | Total Expenses | Net (Expenses) Revenue | Total Expenses | Net (Expenses) Revenue |
| Instruction | \$ 6,325,310 | \$ (4,806,433) | \$ 5,782,042 | \$ (4,406,222) |
| Support services | 2,600,045 | (2,495,773) | 2,495,876 | (2,389,148) |
| Non-instructional | 690,887 | 69,313 | 680,216 | 32,805 |
| Interest on long-term liabilities | 11,138 | (11,138) | 15,737 | (15,737) |
| Total Expenses | \$ 9,627,380 | \$ (7,244,031) | \$ 8,973,871 | \$ (6,778,302) |

- Net cost of governmental activities (\$ 7,244,031), was financed by general revenue, which is made up of primarily property taxes (\$ 1,243,901) and state revenue (\$ 6,518,883).
- Investment earnings accounted for \$ 78,346 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 \$ 3,619,155, an increase of \$ 245,500. The fund balance increase for fiscal year 2006 was less than in fiscal year 2005 due to bathroom renovations, walkways and canopies being replaced. Instructional needs of the district are priority, any monies available after these needs are met are primarily designated to building and grounds upkeep and renovations. \$ 3,296,763 or 91.09% 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 \$ 322,392 or 8.91% 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 \$ 393,692.

**NETTLETON SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**
For the Year Ended June 30, 2006
- Continued -

BUDGETARY HIGHLIGHTS

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

This was due to new maintenance equipment was purchased as old equipment became worn out and unforeseen maintenance issues made revising the annual operating budget necessary.

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 \$ 5,274,051, including school buildings, busses, other school vehicles and furniture and equipment. This amount represents an increase of \$ 470,691 from the previous year. Total accumulated depreciation as of June 30, 2006 was \$ 2,786,965 and total depreciation expense for the year was \$ 131,887, resulting in total net capital assets of \$ 2,487,086.

Additional information of the District's capital assets can be found in Note 5 on page 34 of this report.

Debt Administration. At June 30, 2006, the District had \$ 624,062 in general obligation bonds and other long-term debt outstanding, of which \$ 75,000 is due within one year.

Additional information of the District's long-term debt can be found in Note 6 on pages 35 - 36 of this report.

CURRENT ISSUES

The goal of Nettleton School District is to make all schools in the district level 5 schools. With this in mind, much emphasis is placed on additional teachers and class courses to help meet this goal. In addition to instruction, the appearance of the school plant and grounds is a high priority. We feel that a good environment enhances the overall achievement of our students.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Nettleton School District, Drawer 409, Nettleton, MS 38858.

FINANCIAL STATEMENTS

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NETTLETON SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2006

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| ASSETS | |
| Cash and cash equivalents (Note 3) | \$ 3,420,791 |
| Due from other governments | 251,636 |
| Inventories and prepaid items | 10,386 |
| Restricted assets - Investments (Note 3) | 195,047 |
| Capital assets, net (Note 5) | <u>2,487,086</u> |
| Total Assets | <u>\$ 6,364,946</u> |
| LIABILITIES | |
| Accounts payable and accrued liabilities | \$ 258,705 |
| Long-term liabilities, due within one year (Note 6) | |
| Capital related liabilities | 75,000 |
| Long-term liabilities, due beyond one year (Note 6) | |
| Capital related liabilities | 475,000 |
| Non-capital related liabilities | <u>74,062</u> |
| Total Liabilities | <u>\$ 882,767</u> |
| NET ASSETS | |
| Investment in capital assets, net of related debt | \$ 1,937,086 |
| Restricted net assets: | |
| Expendable: | |
| School - based activities | 295,780 |
| Debt service | 269,704 |
| Unemployment benefits | 23,203 |
| Unrestricted | <u>2,956,406</u> |
| Total Net Assets | <u>\$ 5,482,179</u> |

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

NETTLETON SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006

| Functions / Programs | Expenses | PROGRAM REVENUES | | | Governmental Activities | NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS |
|---|---------------------|----------------------|------------------------------------|----------------------------------|----------------------------|---|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | | |
| Governmental Activities: | | | | | | |
| Instruction | \$ 6,325,310 | \$ 358,526 | \$ 1,160,351 | \$ -0- | \$ (4,806,433) | |
| Support services | 2,600,045 | -0- | 104,272 | -0- | (2,495,773) | |
| Non-instructional | 690,887 | 208,326 | 551,874 | -0- | 69,313 | |
| Interest on long-term liabilities | <u>11,138</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>(11,138)</u> | |
| Total governmental activities | \$ <u>9,627,380</u> | \$ <u>566,852</u> | \$ <u>1,816,497</u> | \$ <u>-0-</u> | \$ (<u>7,244,031</u>) | |
| General Revenues: | | | | | | |
| Taxes: | | | | | | |
| General purpose levies | | | | | \$ 1,077,712 | |
| Debt purpose levies | | | | | 166,189 | |
| Unrestricted grants and contributions: | | | | | | |
| State | | | | | 6,518,883 | |
| Federal | | | | | 88,246 | |
| Unrestricted investment earnings | | | | | 78,346 | |
| Other | | | | | 13,822 | |
| Loss on disposal of asset | | | | | (<u>111</u>) | |
| Total General Revenues | | | | | \$ <u>7,943,087</u> | |
| Change in Net Assets | | | | | \$ 699,056 | |
| Net Assets - Beginning | | | | | \$ <u>4,783,123</u> | |
| Net Assets - Ending | | | | | \$ <u><u>5,482,179</u></u> | |

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

NETTLETON SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
 June 30, 2006

| | MAJOR FUNDS | | | | | | Total Governmental Funds |
|--|---------------------|------------------------|------------------------------|----------------------------|--------------------------------|-----------|--------------------------------|
| | General Fund | IDEA Part B Fund | Twenty-First Century Fund | School Building Fund | Other Governmental Funds | | |
| ASSETS | | | | | | | |
| Cash and cash equivalents (Note 3) | \$ 1,381,571 | \$ -0- | \$ 2,753 | \$ 1,669,115 | \$ 367,352 | \$ | 3,420,791 |
| Investments (Note 3) | -0- | -0- | -0- | -0- | 195,047 | | 195,047 |
| Due from other governments | 114,450 | 40,404 | 42,412 | -0- | 54,370 | | 251,636 |
| Due from other funds (Note 4) | 78,693 | -0- | -0- | -0- | 12,638 | | 91,331 |
| Inventories | -0- | -0- | -0- | -0- | 10,386 | | 10,386 |
| Total Assets | <u>\$ 1,574,714</u> | <u>\$ 40,404</u> | <u>\$ 45,165</u> | <u>\$ 1,669,115</u> | <u>\$ 639,793</u> | <u>\$</u> | <u>3,969,191</u> |
| LIABILITIES AND FUND BALANCES | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts payable and accrued liabilities | \$ 85,026 | \$ 34,345 | \$ 3,125 | \$ 128,335 | \$ 7,874 | \$ | 258,705 |
| Due to other funds (Note 4) | -0- | 6,059 | 42,040 | -0- | 43,232 | | 91,331 |
| Total Liabilities | <u>\$ 85,026</u> | <u>\$ 40,404</u> | <u>\$ 45,165</u> | <u>\$ 128,335</u> | <u>\$ 51,106</u> | <u>\$</u> | <u>350,036</u> |
| Fund Balances: | | | | | | | |
| Reserved for: | | | | | | | |
| Unemployment benefits | \$ -0- | \$ -0- | \$ -0- | \$ -0- | \$ 23,203 | \$ | 23,203 |
| Ad valorem | 19,099 | -0- | -0- | -0- | -0- | | 19,099 |
| Inventory | -0- | -0- | -0- | -0- | 10,386 | | 10,386 |
| Debt service funds | -0- | -0- | -0- | -0- | 269,704 | | 269,704 |
| Unreserved: | | | | | | | |
| Designated for, reported in: | | | | | | | |
| Capital project funds | -0- | -0- | -0- | 1,540,780 | -0- | | 1,540,780 |
| Undesignated, reported in: | | | | | | | |
| General fund | 1,470,589 | -0- | -0- | -0- | -0- | | 1,470,589 |
| Special revenue funds | -0- | -0- | -0- | -0- | 285,394 | | 285,394 |
| Total Fund Balances | <u>\$ 1,489,688</u> | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ 1,540,780</u> | <u>\$ 588,687</u> | <u>\$</u> | <u>3,619,155</u> |
| Total Liabilities and Fund Balances | <u>\$ 1,574,714</u> | <u>\$ 40,404</u> | <u>\$ 45,165</u> | <u>\$ 1,669,115</u> | <u>\$ 639,793</u> | <u>\$</u> | <u>3,969,191</u> |

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

NETTLETON SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2006

| | Amount |
|--|--------------|
| Total Fund Balance - Governmental Funds | \$ 3,619,155 |
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| 1. Capital assets which are used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$ 2,786,965. (Note 5) | 2,487,086 |
| 2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (Note 6) | (624,062) |
| | _____ |
| Total Net Assets - Governmental Activities | \$ 5,482,179 |

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

NETTLETON 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 | IDEA Part B Fund | Twenty-First Century Fund | School Building Fund | Other Governmental Funds | | |
| REVENUES: | | | | | | | |
| Local sources | \$ 1,567,069 | \$ -0- | \$ -0- | \$ -0- | \$ 387,554 | \$ 1,954,623 | |
| State sources | 6,562,213 | -0- | -0- | -0- | 277,248 | 6,839,461 | |
| Federal sources | 113,312 | 342,125 | 135,609 | -0- | 941,417 | 1,532,463 | |
| Total Revenues | \$ 8,242,594 | \$ 342,125 | \$ 135,609 | \$ -0- | \$ 1,606,219 | \$ 10,326,547 | |
| EXPENDITURES: | | | | | | | |
| Instruction | \$ 5,309,558 | \$ 342,125 | \$ 131,679 | \$ -0- | \$ 536,206 | \$ 6,319,568 | |
| Support services | 2,393,826 | -0- | 3,930 | -0- | 191,881 | 2,589,637 | |
| Noninstructional services | 243 | -0- | -0- | -0- | 674,415 | 674,658 | |
| Facilities acquisition and construction | 145,275 | -0- | -0- | 239,220 | -0- | 384,495 | |
| Debt service: | | | | | | | |
| Principal | -0- | -0- | -0- | -0- | 100,000 | 100,000 | |
| Interest | -0- | -0- | -0- | -0- | 9,138 | 9,138 | |
| Other | -0- | -0- | -0- | -0- | 2,000 | 2,000 | |
| Total Expenditures | \$ 7,848,902 | \$ 342,125 | \$ 135,609 | \$ 239,220 | \$ 1,513,640 | \$ 10,079,496 | |
| Excess (Deficiency) of Revenues Over Expenditures | \$ 393,692 | \$ -0- | \$ -0- | \$ (239,220) | \$ 92,579 | \$ 247,051 | |
| Other Financing Sources (Uses): | | | | | | | |
| Operating transfers in | \$ -0- | \$ -0- | \$ -0- | \$ -0- | \$ -0- | \$ -0- | |
| Operating transfers out | -0- | -0- | -0- | -0- | -0- | -0- | |
| Total Other Financing Sources (Uses) | \$ -0- | \$ -0- | \$ -0- | \$ -0- | \$ -0- | \$ -0- | |
| Net Change in Fund Balances | \$ 393,692 | \$ -0- | \$ -0- | \$ (239,220) | \$ 92,579 | \$ 247,051 | |
| Fund Balances: | | | | | | | |
| July 1, 2005 | \$ 1,095,996 | \$ -0- | \$ -0- | \$ 1,780,000 | \$ 497,659 | \$ 3,373,655 | |
| (Decrease) in reserve for inventory | -0- | -0- | -0- | -0- | (1,551) | (1,551) | |
| June 30, 2006 | <u>\$ 1,489,688</u> | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ 1,540,780</u> | <u>\$ 588,687</u> | <u>\$ 3,619,155</u> | |

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

NETTLETON 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 | \$ 247,051 |
| 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 asset purchases amounted to \$ 481,749 and the depreciation expense amounted to \$ 131,887. (Note 5) | 349,862 |
| 2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of activities. (Note 6) | 100,000 |
| 3. Gains and losses on the sale or disposal of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds, if any. | (111) |
| 4. Governmental funds do not recognize transactions that are not normally paid with expendable available resources. The statement of activities reports expenses and liabilities regardless of when financial resources are available. Compensated absences decreased to \$ 74,062. (Note 6) | 3,805 |
| 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>1,551</u>) |
| Change in Net Assets of Governmental Activities | \$ <u><u>699,056</u></u> |

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

NETTLETON SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2006

| | <u>Agency Funds</u> |
|--|--------------------------|
| ASSETS | |
| Cash and cash equivalents (Note 3) | \$ <u>424,319</u> |
| Total Assets | \$ <u><u>424,319</u></u> |
| LIABILITIES | |
| Accounts payable and accrued liabilities | \$ 391,476 |
| Due to student clubs | <u>32,843</u> |
| Total Liabilities | \$ <u><u>424,319</u></u> |

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

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**NETTLETON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 2006

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

B. BASIS OF PRESENTATION

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

Government-wide Financial Statements

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

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

Fund Financial Statements

Fund financial statements of the school district are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a 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.

NETTLETON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2006

-Continued-

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 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.

IDEA Part B Fund - This is the school district's fund for accounting for the federal funding of the Special Education program for the fiscal year.

Twenty-First Century Fund - This is the school district's fund for accounting for the federal funding of the Twenty-First Century program for the fiscal year.

School Building Fund - This is the school district's fund for monies set aside for capital projects.

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

NETTLETON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2006

-Continued-

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING - Continued

GOVERNMENTAL FUNDS - Continued

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.

FIDUCIARY FUNDS

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

D. ACCOUNT CLASSIFICATIONS

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

E. ENCUMBRANCES

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

F. CASH AND CASH EQUIVALENTS

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

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

G. INVESTMENTS

The school district can invest 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.

NETTLETON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2006

-Continued-

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

G. INVESTMENTS - Continued

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

Investments are reported at fair value.

H. INVENTORIES AND PREPAID ITEMS

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

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

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

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 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 schedules details those thresholds.

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

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

**NETTLETON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 2006

-Continued-

NOTE 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 included 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 of interfund transactions, including receivables and payables at year-end.

L. EQUITY CLASSIFICATIONS

Government-wide Financial Statements

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

1. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, constructions or improvements 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."

**NETTLETON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 2006

-Continued-

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

L. EQUITY CLASSIFICATIONS - Continued

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

Reserved for ad valorem - An account used to record the ad valorem taxes collected in excess of legal limitations for the current fiscal year.

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 Funds which are legally restricted and not available for spending for any other purpose than that for which it is restricted.

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

M. PROPERTY TAXES

Ad valorem property taxes are levied by the governing authorities of the counties 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.

NETTLETON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2006

-Continued-

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

NOTE 2. CHANGE 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.

NOTE 3. CASH, CASH EQUIVALENTS AND INVESTMENTS

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

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

**NETTLETON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 2006

-Continued-

NOTE 3. CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

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 obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, the principal and interest of which are fully guaranteed by the government or enumerated agency of the United States; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or interest in, and open-end or closed-end any management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration. Investment income on bond funds (Capital Projects), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent Funds) must be credited to those funds. Investment income of \$ 100 or more of any fund must be credited to that fund. Amounts less than \$ 100 can be credited to the General fund.

Cash and Cash Equivalents

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$ 3,420,791 and \$ 424,319, respectively. The carrying amount of deposits reported in the government-wide financial statement is the same as in the governmental funds. The bank balance was \$ 4,357,001.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of Mississippi State Treasurer on behalf of the district. As of June 30, 2006, none of the district's bank balance of \$4,357,001 was exposed to custodial credit risk.

Investments

As of June 30, 2006, the district had the following investments. All investments are in an investment pool.

| <u>Investment Type</u> | <u>Maturities (in years)</u> | <u>Fair Value</u> | <u>Rating</u> |
|---------------------------------|------------------------------|--------------------------|---------------|
| US Government Agency Securities | Less than 1 | \$ <u>195,047</u> | AAA |
| Total Investments | | \$ <u><u>195,047</u></u> | |

**NETTLETON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 2006

-Continued-

NOTE 3. CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

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

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

Custodial Credit Risk - Investments. Custodial credit risk is defined as the risk that, in the event of the failure of the counterpart, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk. As of June 30, 2006, the district did not have any investments to which this would apply.

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

| <u>Issuer</u> | <u>Fair Value</u> | <u>% of Total Investment</u> |
|---|-------------------|------------------------------|
| Federal National Mortgage Association Notes - QZAB Fund | \$ 195,047 | 100% |

NOTE 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 | \$ 78,693 | \$ -0- |
| IDEA Part B fund | -0- | 6,059 |
| Twenty-First Century fund | -0- | 42,040 |
| Other governmental funds | <u>12,638</u> | <u>43,232</u> |
| Total | <u>\$ 91,331</u> | <u>\$ 91,331</u> |

The above due from and due to other funds are for support from the District Maintenance fund until reimbursement is received.

NETTLETON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2006

-Continued-

NOTE 5. CAPITAL ASSETS

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

| | Balance 7/1/2005 | Additions | Retirements | Capitalized Construction | Balance 6/30/2006 |
|--|---------------------|-------------------|------------------|-----------------------------|----------------------|
| Non-depreciable capital assets: | | | | | |
| Land | \$ 196,899 | \$ -0- | \$ -0- | \$ -0- | \$ 196,899 |
| Construction in progress | <u>-0-</u> | <u>229,370</u> | <u>-0-</u> | <u>-0-</u> | <u>229,370</u> |
| Total non-depreciable capital assets | \$ <u>196,899</u> | \$ <u>229,370</u> | \$ <u>-0-</u> | \$ <u>-0-</u> | \$ <u>426,269</u> |
| Depreciable capital assets: | | | | | |
| Buildings | \$ 3,123,635 | \$ 155,125 | \$ -0- | \$ -0- | \$ 3,278,760 |
| Improvements other than buildings | 229,732 | -0- | -0- | - | 229,732 |
| Mobile equipment | 1,019,706 | 50,600 | -0- | -0- | 1,070,306 |
| Furniture and equipment | <u>233,388</u> | <u>46,654</u> | <u>11,058</u> | <u>-0-</u> | <u>268,984</u> |
| Total depreciable capital assets | \$ <u>4,606,461</u> | \$ <u>252,379</u> | \$ <u>11,058</u> | \$ <u>-0-</u> | \$ <u>4,847,782</u> |
| Less accumulated depreciation: | | | | | |
| Buildings | \$ 1,847,667 | \$ 36,717 | \$ -0- | \$ -0- | \$ 1,884,384 |
| Improvements other than buildings | 19,750 | 9,190 | -0- | -0- | 28,940 |
| Mobile equipment | 618,641 | 66,929 | -0- | -0- | 685,570 |
| Furniture and equipment | <u>179,967</u> | <u>19,051</u> | <u>10,947</u> | <u>-0-</u> | <u>188,071</u> |
| Total accumulated depreciation | \$ <u>2,666,025</u> | \$ <u>131,887</u> | \$ <u>10,947</u> | \$ <u>-0-</u> | \$ <u>2,786,965</u> |
| Total depreciable capital assets, net | \$ <u>1,940,436</u> | \$ <u>120,492</u> | \$ <u>111</u> | \$ <u>-0-</u> | \$ <u>2,060,817</u> |
| Governmental activities capital assets, net | \$ <u>2,137,335</u> | \$ <u>349,862</u> | \$ <u>111</u> | \$ <u>-0-</u> | \$ <u>2,487,086</u> |

Depreciation expense was charged to the following governmental functions:

| | Amount |
|-------------------|-------------------|
| Instruction | \$ 29,349 |
| Support services | 77,193 |
| Non-instructional | <u>25,345</u> |
| | <u>\$ 131,887</u> |

The capital assets above include significant amounts of buildings and furniture and equipment which have been valued at estimated historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition.

NETTLETON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2006

-Continued-

NOTE 5. CAPITAL ASSETS - Continued

Commitments under construction contracts at June 30, 2006, are summarized as follows:

| | Remaining Commitment | Required Future Financing |
|----------------------|-------------------------|------------------------------|
| Bathroom Renovations | \$ 124,905 | \$ -0- |
| | \$ 124,905 | \$ -0- |

NOTE 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 | Balance 6/30/2006 | Amounts Due Within One Year |
|---|---------------------|-----------|------------|----------------------|-----------------------------------|
| A. General obligation bonds payable | \$ 175,000 | \$ -0- | \$ 100,000 | \$ 75,000 | \$ 75,000 |
| B. Qualified zone academy bonds payable | 475,000 | -0- | -0- | 475,000 | -0- |
| C. Compensated absences payable | 77,867 | -0- | 3,805 | 74,062 | -0- |
| Total | \$ 727,867 | \$ -0- | \$ 103,805 | \$ 624,062 | \$ 75,000 |

A. General Obligation Bonds Payable

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

| Description | Interest Rate | Issue Date | Maturity Date | Amounts | |
|----------------------|------------------|---------------|------------------|------------|-------------|
| | | | | Issued | Outstanding |
| 1993 refunding bonds | varies | 6/1/1993 | 6/1/2007 | \$ 955,000 | \$ 75,000 |
| Total | | | | \$ 955,000 | \$ 75,000 |

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

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|-----------|----------|--------|
| 2007 | 75,000 | 3,938 | 78,938 |

NETTLETON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2006

-Continued-

NOTE 6. LONG-TERM LIABILITIES - Continued

A. General Obligation Bonds Payable - Continued

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

B. Qualified Zone Academy Bonds Payable

As more fully explained in Note 10, debt has been issued by the school district that qualifies as Qualified Zone Academy Bonds. Debt current outstanding is as follows:

| <u>Description</u> | <u>Interest Rate</u> | <u>Issue Date</u> | <u>Maturity Date</u> | <u>Amounts</u> | |
|------------------------------|----------------------|-------------------|----------------------|--------------------------|--------------------------|
| | | | | <u>Issued</u> | <u>Outstanding</u> |
| Qualified zone academy bonds | 0.00% | 7/20/2000 | 7/20/2010 | \$ <u>475,000</u> | \$ <u>475,000</u> |
| Total | | | | \$ <u><u>475,000</u></u> | \$ <u><u>475,000</u></u> |

This debt will be retired from the QZAB School Note Fund.

C. Compensated Absences Payable

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

NOTE 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.

**NETTLETON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

For the Year Ended June 30, 2006

-Continued-

NOTE 7. DEFINED BENEFIT PENSION PLAN - Continued

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The rate for fiscal year ended June 30, 2006 was 10.75% of 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 \$ 582,104, \$ 490,831 and \$ 466,591, respectively, which equaled the required contributions for each year.

NOTE 8. OTHER COMMITMENTS

Commitments under construction contracts are described in Note 5.

In April 2006, the school district approved a construction contract for side walks, canopies and site drainage in the amount of \$ 185,000. This project did not start until July 2006.

NOTE 9. RISK MANAGEMENT

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

Participation in Public Entity Risk Pool.

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of 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 member. Each member of MSBAWCT contributes quarterly to a fund held in trust by BancorpSouth Bank 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 that will pay the excess up to \$ 25,000,000. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for the excess losses incurred by the pool.

NOTE 10. 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 Tennessee Valley Authority (TVA), has entered into such an arrangement dated July 1, 2000.

NETTLETON SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2006

-Continued-

NOTE 10. QUALIFIED ZONE ACADEMY BONDS - Continued

On June 13, 2000, the Nettleton School District board of trustees adopted a resolution authorizing the issuance of a four hundred and seventy-five thousand dollar (\$ 475,000) limited-tax note of the district designating the note to be a qualified zone academy bond (the "note") and awarding the sale of the note to the purchaser. The note resolution also authorized the superintendent, board president and secretary to execute all documents necessary to affect the issuance of the note.

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 July 1. 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.

| Year Ending June 30, | Total |
|-------------------------|------------|
| 2007 | \$ 52,200 |
| 2008 | 52,200 |
| 2009 | 50,000 |
| 2010 | 50,000 |
| 2011 | 50,000 |
| Total | \$ 254,400 |

REQUIRED SUPPLEMENTARY INFORMATION

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NETTLETON SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
For the Year Ended June 30, 2006

| | <u>Budgeted Amounts</u> | | Actual (GAAP) (Basis) | Variances | |
|---|--------------------------|--------------------------|-----------------------------|------------------------------|----------------------------|
| | | | | <u>Positive (Negative)</u> | |
| | <u>Original</u> | <u>Final</u> | | <u>Original to Final</u> | <u>Final to Actual</u> |
| Revenues: | | | | | |
| Local sources | \$ 1,266,000 | \$ 1,585,815 | \$ 1,567,069 | \$ 319,815 | \$ (18,746) |
| State sources | 6,124,340 | 6,518,499 | 6,562,213 | 394,159 | 43,714 |
| Federal sources | <u>60,000</u> | <u>88,944</u> | <u>113,312</u> | <u>28,944</u> | <u>24,368</u> |
| Total Revenues | \$ <u>7,450,340</u> | \$ <u>8,193,258</u> | \$ <u>8,242,594</u> | \$ <u>742,918</u> | \$ <u>49,336</u> |
| Expenditures: | | | | | |
| Instruction | \$ 4,536,441 | \$ 5,332,834 | \$ 5,309,558 | \$(796,393) | \$ 23,276 |
| Support services | 1,977,398 | 2,386,286 | 2,393,826 | (408,888) | (7,540) |
| Noninstructional services | 24,900 | 243 | 243 | 24,657 | -0- |
| Facilities acquisition and construction | <u>225,000</u> | <u>152,815</u> | <u>145,275</u> | <u>72,185</u> | <u>7,540</u> |
| Total Expenditures | \$ <u>6,763,739</u> | \$ <u>7,872,178</u> | \$ <u>7,848,902</u> | \$(<u>1,108,439</u>) | \$ <u>23,276</u> |
| Excess (Deficiency) of Revenues Over Expenditures | \$ <u>686,601</u> | \$ <u>321,080</u> | \$ <u>393,692</u> | \$(<u>365,521</u>) | \$ <u>72,612</u> |
| Other Financing Sources (Uses): | | | | | |
| Operating transfers in | \$ -0- | \$ -0- | \$ -0- | \$ -0- | \$ -0- |
| Operating transfers out | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> |
| Total Other Financing Sources (Uses) | \$ <u>-0-</u> | \$ <u>-0-</u> | \$ <u>-0-</u> | \$ <u>-0-</u> | \$ <u>-0-</u> |
| Net Change in Fund Balances | \$ 686,601 | \$ 321,080 | \$ 393,692 | \$(365,521) | \$ 72,612 |
| Fund Balances: | | | | | |
| July 1, 2005 | <u>-0-</u> | <u>-0-</u> | <u>1,095,996</u> | <u>-0-</u> | <u>1,095,996</u> |
| June 30, 2006 | \$ <u><u>686,601</u></u> | \$ <u><u>321,080</u></u> | \$ <u><u>1,489,688</u></u> | \$(<u><u>365,521</u></u>) | \$ <u><u>1,168,608</u></u> |

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

NETTLETON SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE IDEA PART B FUND
For the Year Ended June 30, 2006

| | <u>Budgeted Amounts</u> | | Actual (GAAP) (Basis) | Variances | |
|---|-------------------------|--------------|-----------------------------|------------------------------|----------------------------|
| | | | | <u>Positive (Negative)</u> | |
| | <u>Original</u> | <u>Final</u> | | <u>Original to Final</u> | <u>Final to Actual</u> |
| Revenues: | | | | | |
| Federal sources | \$ 340,000 | \$ 342,133 | \$ 342,125 | \$ 2,133 | \$ (8) |
| Total Revenues | \$ 340,000 | \$ 342,133 | \$ 342,125 | \$ 2,133 | \$ (8) |
| Expenditures: | | | | | |
| Instruction | \$ 242,059 | \$ 342,125 | \$ 342,125 | \$(100,066) | \$ -0- |
| Support services | 87,100 | -0- | -0- | 87,100 | -0- |
| Total Expenditures | \$ 329,159 | \$ 342,125 | \$ 342,125 | \$(12,966) | \$ -0- |
| Excess (Deficiency) of Revenues Over Expenditures | \$ 10,841 | \$ 8 | \$ -0- | \$(10,833) | \$ (8) |
| Other Financing Sources (Uses): | | | | | |
| Operating transfers in | \$ -0- | \$ -0- | \$ -0- | \$ -0- | \$ -0- |
| Operating transfers out | -0- | -0- | -0- | -0- | -0- |
| Total Other Financing Sources (Uses) | \$ -0- | \$ -0- | \$ -0- | \$ -0- | \$ -0- |
| Net Change in Fund Balances | \$ 10,841 | \$ 8 | \$ -0- | \$(10,833) | \$ (8) |
| Fund Balances: | | | | | |
| July 1, 2005 | \$ -0- | \$ -0- | \$ -0- | \$ -0- | \$ -0- |
| June 30, 2006 | \$ 10,841 | \$ 8 | \$ -0- | \$(10,833) | \$ (8) |

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

NETTLETON SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE TWENTY-FIRST CENTURY FUND
For the Year Ended June 30, 2006

| | <u>Budgeted Amounts</u> | | Actual (GAAP) (Basis) | Variances | |
|---|-------------------------|--------------------|-----------------------------|------------------------------|----------------------------|
| | | | | <u>Positive (Negative)</u> | |
| | <u>Original</u> | <u>Final</u> | | <u>Original to Final</u> | <u>Final to Actual</u> |
| Revenues: | | | | | |
| Federal sources | \$ 146,000 | \$ 133,521 | \$ 135,609 | \$(12,479) | \$ 2,088 |
| Total Revenues | \$ 146,000 | \$ 133,521 | \$ 135,609 | \$(12,479) | \$ 2,088 |
| Expenditures: | | | | | |
| Instruction | \$ 146,000 | \$ 131,679 | \$ 131,679 | \$ 14,321 | \$ -0- |
| Support services | <u>-0-</u> | <u>3,930</u> | <u>3,930</u> | <u>(3,930)</u> | <u>-0-</u> |
| Total Expenditures | \$ 146,000 | \$ 135,609 | \$ 135,609 | \$ 10,391 | \$ -0- |
| Excess (Deficiency) of Revenues Over Expenditures | \$ -0- | \$(2,088) | \$ -0- | \$(2,088) | \$ 2,088 |
| Other Financing Sources (Uses): | | | | | |
| Operating transfers in | \$ -0- | \$ -0- | \$ -0- | \$ -0- | \$ -0- |
| Operating transfers out | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> |
| Total Other Financing Sources (Uses) | \$ -0- | \$ -0- | \$ -0- | \$ -0- | \$ -0- |
| Net Change in Fund Balances | \$ -0- | \$(2,088) | \$ -0- | \$(2,088) | \$ 2,088 |
| Fund Balances: | | | | | |
| July 1, 2005 | \$ -0- | \$ -0- | \$ -0- | \$ -0- | \$ -0- |
| June 30, 2006 | \$ <u>0</u> | \$(<u>2,088</u>) | \$ <u>-0-</u> | \$(<u>2,088</u>) | \$ <u>2,088</u> |

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

NETTLETON SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2006

Budgetary Comparison Schedule

Note 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.

Note 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.

Note 3: Individual Fund Disclosures

No funds had an excess of expenditures over budget.

SUPPLEMENTAL INFORMATION

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NETTLETON 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. S. Department of Agriculture | | |
| Passed-through Mississippi Department of Education: | | |
| Noncash assistance: | | |
| Food Donation | 10.550 | \$ <u>35,732</u> |
| Child Nutrition Cluster: | | |
| School Breakfast Program | 10.553 | \$ 119,530 |
| National School Lunch Program | 10.555 | 412,249 |
| Summer Food Service Program for Children | 10.559 | <u>14,628</u> |
| Total Child Nutrition Cluster | | <u>\$ 546,407</u> |
| Fresh Fruit & Vegetable Program | 10.582 | <u>\$ 51,687</u> |
| Total U. S. Department of Agriculture | | <u>\$ 633,826</u> |
| Federal Communications Commission | | |
| Administered through the Universal Service Administrative Company | | |
| The Schools and Libraries Program of the Universal Service Fund | | |
| | 32.XXX | <u>\$ 26,482</u> |
| Total Federal Communications Commission | | <u>\$ 26,482</u> |
| U. S. Department of Education | | |
| Passed-through Mississippi Department of Education: | | |
| Title I - Grants to Local Educational Agencies | 84.010 | \$ 260,885 |
| Vocational Education - Basic Grants to States | 84.048 | 14,034 |
| Safe and Drug-Free Schools and Communities - State Grants | 84.186 | 2,000 |
| Twenty-First Century Community Learning Centers | 84.287 | 135,609 |
| State Grants for Innovative Programs | 84.298 | 2,921 |
| Education Technology State Grants | 84.318 | 11,567 |
| Improving Teacher Quality State Grants | 84.367 | 79,975 |
| Grants for State Assessments and Related Activities | 84.369 | <u>8,630</u> |
| Total | | <u>\$ 515,621</u> |
| Special Education Cluster: | | |
| Special Education - Grants to States | 84.027 | \$ 367,190 |
| Special Education - Preschool Grants | 84.173 | <u>9,531</u> |
| Total Special Education Cluster | | <u>\$ 376,721</u> |
| Total Passed-through Mississippi Department of Education | | <u>\$ 892,342</u> |
| Total U. S. Department of Education | | <u>\$ 892,342</u> |
| Total for all Federal Awards | | <u>\$ 1,552,650</u> |

NETTLETON SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2006

-Continued-

NOTES TO SCHEDULE

Note 1: This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the financial statements.

Note 2: The expenditure amounts include transfers out.

Note 3: The pass-through entities did not assign identifying numbers to the school district.

NETTLETON 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 | \$ 7,277,178 | \$ 5,724,635 | \$ 302,859 | \$ 370,646 | \$ 879,038 |
| Other | <u>2,802,318</u> | <u>985,740</u> | <u>73,053</u> | <u>7,330</u> | <u>1,736,195</u> |
| Total | <u>\$ 10,079,496</u> | <u>\$ 6,710,375</u> | <u>\$ 375,912</u> | <u>\$ 377,976</u> | <u>\$ 2,615,233</u> |
| Total number of students | <u>1,380</u> | | | | |
| Cost per student | <u>\$ 7,304</u> | <u>\$ 4,863</u> | <u>\$ 272</u> | <u>\$ 274</u> | <u>\$ 1,895</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 (2300's); and Support Services - Business (2500's)

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

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

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REPORTS ON COMPLIANCE AND INTERNAL CONTROL

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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
Nettleton School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Nettleton School District as of and for the year ended June 30, 2006, which collectively comprise the Nettleton School District's basic financial statements and have issued our report thereon dated July 27, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the school district's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion 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 over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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 that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that we have reported to management of the school district in a separate letter dated July 27, 2007, 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.

M. M. Winkler & Associates

July 27, 2007

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

Superintendent and School Board
Nettleton School District

Compliance

We have audited the compliance of the Nettleton 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 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 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, Nettleton 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 Nettleton 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 the internal control over compliance in accordance with OMB Circular A-133.

**INDEPENDENT AUDITORS' REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

- Continued -

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.

M. M. Winkler & Associates

July 27, 2007

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

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Superintendent and School Board
Nettleton School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Nettleton School District as of and for the year ended June 30, 2006, which collectively comprise Nettleton School District's basic financial statements and have issued our report thereon dated July 27, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$4,838 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 instances of noncompliance with other state laws and regulations. Our findings and recommendations and your responses are as follows:

Finding

The District used an incorrect base period (July through June) for its Ad Valorem Tax Base Calculation for fiscal year June 30, 2006.

Recommendation

We recommend the district follow the Ad Valorem Tax Escrow / Shortfall Calculation as prescribed in the *Financial Accounting Manual for Mississippi Public School Districts* issued by the Mississippi Department of Education.

School District Response

The District figured Ad Valorem tax escrow using revenue dates as collected from the county instead of when received by the District. Also, Ad Valorem tax reduction funds were not divided properly as to a per pupil amount from each county. The District will perform these calculations with more attention given to dates and per pupil amounts from Ad Valorem tax reduction funds.

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

- Continued -

Finding

Section 37-7-13, Miss. Code Ann. (1972), requires purchases which involve an expenditure of more than \$15,000, exclusive of freight and shipping charges may be made from the lowest and best bidder after advertising for competitive sealed bids. During Nettleton School Districts state legal compliance purchasing testing it was noted that one expenditure of more than \$15,000 was not advertised for competitive bids.

Recommendation

We recommend that the school district comply with Section 37-7-13, Miss. Code Ann. (1972).

School District Response

The District received a \$ 9,500 donation from a vendor to purchase a scoreboard from a specified company, so the donating vendor could maintenance the scoreboard at no cost to the district. With this option and other donated monies recieved, the District decided this was the most cost saving way to get a new scoreboard.

The Office of the State Auditor or a public accounting firm will review, on the subsequent year's audit engagement, the findings 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.

M. M. Winkler & Associates

July 27, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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NETTLETON 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: | |
| Cluster: Child Nutrition Cluster | |
| CFDA#: 10.553; CDFAs#: 10.555; CFDA#: 10.559 | |
| 8. The dollar threshold used to distinguish between type A and type B programs: | \$ 300,000 |
| 9. Auditee qualified as a low-risk auditee? | Yes |
| 10. Prior fiscal year audit 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 |

NETTLETON SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2006

- Continued -

Section 2: Financial Statements 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 tests did not disclose any findings and questioned costs related to the federal awards.