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NEWTON MUNICIPAL SCHOOL DISTRICT
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NEWTON MUNICIPAL SCHOOL DISTRICT
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2006

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

Superintendent and School Board
Newton Municipal School District

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Newton Municipal School District as of and for the year ended June 30, 2006, which collectively comprise the Newton Municipal School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Newton Municipal School District's management. Our responsibility is to express an opinion 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 opinion.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2006, on our consideration of the Newton Municipal School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Superintendent and School Board
Newton Municipal School District
Page two

The Management's Discussion and Analysis on pages 4 through 12 and the Budgetary Comparison Schedule and corresponding notes on pages 36 through 41 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Newton Municipal 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. 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.

Holt + Associates

November 10, 2006

**NEWTON MUNICIPAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

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

FINANCIAL HIGHLIGHTS

- Total net assets decreased \$53,949, which represents .82% decrease from fiscal year 2005.
- General revenues account for \$6,793,775 in revenue, or 73.57% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$2,440,671 or 26.43% of total revenues.
- The District had \$9,288,395 in expenses; only \$175,342 of these expenses were offset by program specific charges for services, while \$2,265,329 in expenses were offset by grants or contributions. General revenues of \$6,793,775 were inadequate to cover the additional expenses, resulting in a decrease in fund balance of \$53,949.
- Among major funds, the General Fund had \$6,543,487 in revenues and \$6,578,539 in expenditures. The General Fund's fund balance decreased \$222,475 over the prior year.
- Capital assets, net of accumulated depreciation, decreased by \$118,920.
- Long-term debt decreased by \$114,880.

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

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

The government-wide financial statements can be found on pages 14 - 15 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.

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

OVERVIEW OF FINANCIAL STATEMENTS – (CONTINUED)

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 17 and 19, respectively.

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

The basic governmental fund financial statements can be found on pages 16 - 19 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The school district's fiduciary activities are presented in separate Statements of Fiduciary Net Assets on page 20.

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 21 - 34 of this report.

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

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

OVERVIEW OF FINANCIAL STATEMENTS – (CONTINUED)

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 36 – 39 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on page 42 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 \$6,496,515 as of June 30, 2006. By far the largest portion of the District's net assets (60.43%) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment, and leased property under capital leases), 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 following table presents a summary of the District's net assets for the fiscal year ended June 30, 2006 and 2005, respectively.

	<u>Net Assets</u>		<u>Percentage Change</u>
	<u>June 30, 2006</u>	<u>June 30, 2005</u>	
Current Assets	\$ 2,672,255	\$ 2,842,940	-6.0%
Capital Assets, net	6,792,109	6,911,030	-1.7%
Total Assets	<u>9,464,364</u>	<u>9,753,970</u>	<u>-3.0%</u>
Current Liabilities	150,882	224,232	-32.7%
Long-Term Debt Outstanding	2,816,967	2,921,967	-3.6%
Total Liabilities	<u>2,967,849</u>	<u>3,146,199</u>	<u>-5.7%</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	3,925,782	3,929,823	-0.1%
Restricted	1,207,514	1,092,253	10.6%
Unrestricted	1,363,219	1,585,695	-14.0%
Total Net Assets	<u>\$ 6,496,515</u>	<u>\$ 6,607,771</u>	<u>-1.7%</u>
Adjustment	<u>-</u>	<u>(57,307)</u>	<u>100.0%</u>
Net Assets, Restated	<u>\$ 6,496,515</u>	<u>\$ 6,550,464</u>	<u>-0.8%</u>

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS – (CONTINUED)

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

- The principal retirement of \$114,880 of long-term debt
- The addition of capital assets.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2006 were \$9,234,446. The total cost of all programs and services was \$9,288,395. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2006 and 2005:

	<u>Change in Net Assets</u>		<u>Percentage Change</u>
	<u>June 30, 2006</u>	<u>June 30, 2005</u>	
Revenues:			
Program Revenues:			
Charges for Services	\$ 175,342	\$ 171,996	1.9%
Operating Grants and Contributions	2,265,329	2,007,066	12.9%
General Revenues:			
Property Taxes	1,949,808	1,866,112	4.5%
Grants & Contributions not Restricted	4,729,853	4,716,005	0.3%
Other	13,644	1,490	89.1%
Special Revenues:			
Insurance Proceeds	100,470	1,047	99.0%
Total Revenues	<u>9,234,446</u>	<u>8,763,716</u>	<u>5.4%</u>
Expenses			
Instruction	4,925,771	4,664,617	5.6%
Support Services	3,739,540	3,269,459	14.4%
Non-Instructional	533,959	524,881	1.7%
Sixteenth Section	2,730	-	100.0%
Interest and Other Expense on Long-Term Liabilities	86,395	89,784	-3.8%
Total Expenses	<u>9,288,395</u>	<u>8,548,741</u>	<u>8.7%</u>
Increase (Decrease) in Net Assets	(53,949)	214,975	-125.1%
Net Assets July 1,	6,550,464	6,392,796	2.5%
Prior Period Adjustment	-	(57,307)	100.0%
Net Assets June 30,	<u>\$ 6,496,515</u>	<u>\$ 6,550,464</u>	<u>-0.8%</u>

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS – (CONTINUED)

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

	2006		2005	
	Total Expenses	Net (Expense) Revenue	Total Expenses	Net (Expense) Revenue
Instruction	\$ 4,925,771	\$ (3,865,424)	\$4,664,617	\$ (3,827,775)
Support Services	3,739,540	(2,863,240)	3,269,459	(2,088,338)
Non-Instructional	533,959	(45,964)	524,881	(379,452)
Sixteenth Section	2,730	(2,371)	-	
Interest and Other Expenses on Long-Term Liabilities	86,395	(70,725)	89,784	(74,114)
Total Expenses	\$ 9,288,395	\$ (6,847,724)	\$8,548,741	\$ (6,369,679)

- Net cost of governmental activities in 2006 of \$6,847,724 and in 2005 of \$6,369,679 was financed by general revenue, which is made up of primarily property taxes in 2006 and 2005 of \$1,949,808 and \$1,866,112, respectively, and state revenue of \$4,629,894 in 2006 and \$4,998,653 in 2005
- Investment earnings accounted for \$42,286 in 2006 and \$28,580 in 2005 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 fiscal year's end.

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

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)

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 \$2,662,518, a decrease of \$107,113 due primarily to an excess of expenditures over revenues in the Other Governmental Funds. \$1,418,859, or 53.29% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balances of \$1,243,659 or 46.71% 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 decrease in fund balance in the General Fund for the fiscal year was \$222,475 a result of operating transfers out. The fund balance of Other Governmental Funds showed a decrease of \$54,872.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget. 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 \$9,973,378, including school buildings, buses, other school vehicles and furniture and equipment. This amount represents a decrease of \$88,006 from the previous year, primarily due to deletions from construction. Total accumulated depreciation as of June 30, 2006 was \$3,181,269 and total depreciation expense for the year was \$240,784, resulting in total net assets of \$6,792,109.

	<u>Capital Assets, Net of Depreciation</u>		<u>Percentage Change</u>
	<u>2006</u>	<u>2005 (Restated)</u>	
Land	\$ 42,306	\$ 42,306	0.0%
Buildings	6,395,811	5,949,826	7.5%
Building Improvements	19,930	21,716	-8.2%
Construction in Progress	-	553,214	100.0%
Mobile Equipment	316,209	296,388	6.7%
Furniture and Equipment	17,617	16,428	7.2%
Leased Equipment	236	236	0.0%
Total	<u>\$ 6,792,109</u>	<u>\$ 6,880,114</u>	<u>-1.3%</u>

Additional information of the District's capital assets can be found in Note 4 on pages 28 of this report.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

Debt Administration. At June 30, 2006, the District had \$2,921,967 in general obligation bonds and other long-term debt outstanding, of which \$105,000 is due within one year.

	<u>Outstanding Debt</u>		<u>Percentage</u>
	<u>2006</u>	<u>2005</u>	<u>Change</u>
Limited Obligation Bonds Payable	\$ 1,735,000	\$ 1,830,000	-5.2%
Qualified Zone Academy Bonds Payable	1,125,000	1,125,000	0.0%
Other Loans Payable	6,327	11,327	-44.1%
Obligations Under Capital Leases	-	14,880	-100.0%
Compensated Absences Payable	<u>55,640</u>	<u>55,640</u>	<u>0.0%</u>
Total	<u>\$ 2,921,967</u>	<u>\$ 3,036,847</u>	<u>-3.8%</u>

Additional information of the District's long-term debt can be found in Note 6 on pages 29 through 31 of this report.

Newton High School

The high school campus is comprised of several recently constructed and renovated classrooms, laboratories, career services, fine arts building and administrative offices. The remaining buildings function relatively well, but require renovation that would include roofing, interiors including code compliance issues, window and door replacement and mechanical/electrical. These buildings include two small classroom buildings, the auditorium, media center, cafeteria and gymnasium.

Newton Middle School

The middle school has newly renovated laboratories and a new media center. The corridors have been renovated and accessibility issues have been addressed in most areas. The campus functions relatively well, but the remaining areas require renovation including roofing, interior, including code compliance issues, window and door replacement and mechanical/electrical.

Newton Elementary School

The elementary school campus is composed of independent buildings with open-air covered connections. The buildings are approximately 20-50 years old and in generally good condition. Areas of critical concern include the electrical service, power distribution, lighting, HVAC systems and classroom entry doors. The overall condition of the entire site is also a concern with regards to railings, ADA access ways and correction of drainage problems.

Central Office

The new central office building was completed in July 2005.

CURRENT ISSUES

Student enrollment in the District was approximately 1,046 students in FY06 and is expected to remain near that figure in FY07 and subsequent years. The budget for the next fiscal year has taken into account this enrollment in both funding and staffing needs.

The district currently has 21 buses, of which only 3 are 2001 or newer. This is a great concern for management due to decreased funding for this area. The district will certainly feel pressure over the coming years as equipment begins to fail

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Newton Municipal School District, P. O. Box 150, Newton, MS 39345.

NEWTON MUNICIPAL SCHOOL DISTRICT
FINANCIAL STATEMENTS

**NEWTON MUNICIPAL SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006**

EXHIBIT A

		<u>Primary Government Governmental Activities</u>
ASSETS:		
Cash and cash equivalents	\$	1,985,238
Other receivables		678
Due from other governments		399,232
Inventories and prepaid items		5,350
Restricted assets		281,757
Capital assets, not being depreciated:		
Land		42,306
Capital assets, net of accumulated depreciation:		
Buildings		6,395,811
Building improvements		19,930
Mobile equipment		316,209
Furniture & fixtures		17,617
Leased property under capital leases		<u>236</u>
TOTAL ASSETS	\$	<u>9,464,364</u>
 LIABILITIES & FUND BALANCES:		
Liabilities:		
Accounts payable & accrued liabilities	\$	3,176
Deferred revenue		6,561
Interest payable on long-term liabilities		36,145
Long-term liabilities (Due within one year)		
Capital related liabilities		105,000
Long-term liabilities (Due beyond one year)		
Capital related liabilities		2,761,327
Non-capital related liabilities		<u>55,640</u>
Total Liabilities	\$	<u>2,967,849</u>
 Net Assets:		
Investment in capital assets (net of related debt)	\$	3,925,782
Restricted net assets:		
Expendable:		
School-based activities		495,147
Debt service		532,138
Capital improvements		129,967
Unemployment benefits		42,976
Non-expendable:		
Sixteenth section		7,286
Unrestricted:		<u>1,363,219</u>
TOTAL NET ASSETS	\$	<u>6,496,515</u>

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

**NEWTON MUNICIPAL SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006**

EXHIBIT B

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	
Primary Government:						
Governmental Activities:						
Instruction	\$ 4,925,771	\$ 95,226	\$ 965,121	\$ -	\$ (3,865,424)	
Support Services	3,739,540	-	876,300	-	(2,863,240)	
Non-instructional	533,959	79,757	408,238	-	(45,964)	
Sixteenth Section	2,730	359	-	-	(2,371)	
Interest and other expenses on long-term liabilities	86,395	-	15,670	-	(70,725)	
Total governmental activities	\$ 9,288,395	\$ 175,342	\$ 2,265,329	\$ -	(6,847,724)	
General Revenues:						
Taxes:						
General purpose levies						1,842,573
Debt purpose levies						107,235
Unrestricted grants & contributions:						
State						4,629,894
Federal						38,148
Unrestricted investment earnings						42,286
Sixteenth section earnings						19,525
Other:						
Insurance Loss Recoveries						100,470
Total General Revenues						6,793,775
Change in Net Assets						(53,949)
Net Assets - Beginning						6,607,771
Prior Period Adjustment						(57,307)
Net Assets - Beginning (Restated)						6,550,464
Net Assets - Ending						\$ 6,496,515

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

**NEWTON MUNICIPAL SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2006**

EXHIBIT C

	MAJOR FUNDS					Total Governmental Funds
	General Fund	Displaced Students Grant Fund	Talent Search FY 2006 Fund	Qualified Bonds Retirement Fund	Other Governmental Funds	
ASSETS:						
Cash and cash equivalents (Note 2)	\$ 1,147,417	\$ -	\$ 1,234	\$ 373,342	\$ 745,002	\$ 2,266,995
Other Receivables	-	-	-	-	678	678
Due from Other Governments	147,753	92,690	29,937	6,185	122,667	399,232
Due from other funds (Note 4)	123,689	-	-	-	-	123,689
Inventories and prepaid items	-	-	-	-	5,350	5,350
TOTAL ASSETS	\$ 1,418,859	\$ 92,690	\$ 31,171	\$ 379,527	\$ 873,697	\$ 2,795,944

LIABILITIES & FUND BALANCES:

Liabilities:						
Accounts Payable & Accrued Liabilities	\$ -	\$ -	\$ -	\$ -	\$ 3,176	\$ 3,176
Due to other funds (Note 4)	-	92,690	15,000	-	15,999	123,689
Deferred revenue	-	-	-	-	6,561	6,561
Total Liabilities	-	92,690	15,000	-	25,736	133,426

Fund Balances:

Reserved For:						
Inventory and prepaid items	-	-	-	-	5,350	5,350
Debt Service Funds	-	-	-	379,527	188,757	568,284
Unemployment Benefits	-	-	-	-	42,976	42,976
Forestry Improvement Purposes	-	-	-	-	18,031	18,031
Permanent Fund	-	-	-	-	7,286	7,286
Unreserved:						
Designated for, reported in:						
Special Revenue Funds	-	-	16,171	-	455,594	471,765
Capital Improvements	-	-	-	-	129,967	129,967
Undesignated, reported in:						
General Fund	1,418,859	-	-	-	-	1,418,859
Total Fund Equity	1,418,859	-	16,171	379,527	847,961	2,662,518

TOTAL LIABILITIES AND FUND BALANCE

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

\$ 1,418,859	\$ 92,690	\$ 31,171	\$ 379,527	\$ 873,697	\$ 2,795,944
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**NEWTON MUNICIPAL SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006**

EXHIBIT C-1

Total Fund Balance - Governmental Funds	\$ 2,662,518
Amounts reported for net assets in the statement of net assets (Exhibit A) are different because:	
1. Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$3,181,269. (Note 5)	6,792,109
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (Note 6)	(2,921,967)
3. Interest payable on long-term liabilities is not due and payable in the current period and therefore is not reported in the funds.	<u>(36,145)</u>
Total Net Assets - Governmental Activities	<u>\$ 6,496,515</u>

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

**NEWTON MUNICIPAL SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006**

EXHIBIT D

	MAJOR FUNDS						Total Governmental Funds
	General Fund	Displaced Students Grant	Talent Search FY 2006 Fund	Qualified Bonds Retirement Fund	Other Governmental Funds	Governmental Funds	
REVENUES							
Local Sources	\$ 2,069,429	\$ -	\$ -	\$ 126,017	\$ 84,456	\$ 2,279,902	
State Sources	4,397,784	-	-	-	707,237	5,105,021	
Federal Sources	76,274	92,690	341,146	-	1,318,240	1,828,350	
Sixteenth Section Sources	-	-	-	-	21,172	21,172	
TOTAL REVENUES	<u>6,543,487</u>	<u>92,690</u>	<u>341,146</u>	<u>126,017</u>	<u>2,131,105</u>	<u>9,234,445</u>	
EXPENDITURES							
Instruction	3,875,611	-	-	-	885,624	4,761,235	
Support Services	2,665,364	92,690	320,809	-	681,684	3,760,547	
Noninstructional Services	32,564	-	-	-	502,674	535,238	
Sixteenth Section	-	-	-	-	2,730	2,730	
Facilities Acquisition & Const.	-	-	-	-	55,523	55,523	
Debt Service:							
Principal	5,000	-	-	-	109,380	114,380	
Interest	-	-	-	-	85,665	85,665	
Other	-	-	-	563	-	563	
TOTAL EXPENDITURES	<u>6,578,539</u>	<u>92,690</u>	<u>320,809</u>	<u>563</u>	<u>2,323,280</u>	<u>9,315,881</u>	
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(35,052)</u>	<u>-</u>	<u>20,337</u>	<u>125,454</u>	<u>(192,175)</u>	<u>(81,436)</u>	
OTHER FINANCIAL SOURCES (USES)							
Operating Transfers In	178,941	-	-	55,000	312,179	546,120	
Other financing sources/(uses)	-	-	-	-	(565)	(565)	
Operating Transfers Out	(366,364)	-	(4,166)	-	(175,590)	(546,120)	
TOTAL OTHER FINANCING SOURCES (USES)	<u>(187,423)</u>	<u>-</u>	<u>(4,166)</u>	<u>55,000</u>	<u>136,024</u>	<u>(565)</u>	
NET CHANGE IN FUND BALANCES	<u>(222,475)</u>	<u>-</u>	<u>16,171</u>	<u>180,454</u>	<u>(56,151)</u>	<u>(82,001)</u>	
FUND BALANCE, JULY 1, 2005	1,641,335	-	-	199,073	929,223	2,769,631	
Prior Period Adjustment	-	-	-	-	(26,391)	(26,391)	
Increase (decrease) in reserve for inventory	-	-	-	-	1,279	1,279	
FUND BALANCE, JUNE 30, 2006	<u>\$ 1,418,860</u>	<u>\$ -</u>	<u>\$ 16,171</u>	<u>\$ 379,527</u>	<u>\$ 847,960</u>	<u>\$ 2,662,518</u>	

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

**NEWTON MUNICIPAL SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006**

EXHIBIT D-1

Net Change in fund balances - governmental funds \$ (82,001)

Amounts reported for governmental activities in the statement of activities are different because:

1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchases and construction costs amounted to \$156,829 and the depreciation expense amounted to \$240,784. (Note 5) (83,955)
2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of activity. (Note 6) 114,880
3. Loss on disposal of capital assets is not included in the governmental funds, but the loss is included as an additional expense in the statement of activity. (4,050)
4. Decrease in accrued interest payable is reported as Expenditures-Debt Service: Interest in the governmental funds, but the decrease reduces the interest payable on long-term liabilities on the statement of net assets. (102)
5. Increase in inventory is reported as an adjustment to fund balance in the governmental funds, but non-instructional expense is increased (decreased) in the statement of activity. 1,279

Change in net assets of governmental activities \$ (53,949)

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

**NEWTON MUNICIPAL SCHOOL DISTRICT
STATEMENT OF NET ASSETS - FIDUCIARY FUNDS
JUNE 30, 2006**

EXHIBIT E

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	<u>\$ 440,091</u>
LIABILITIES	
Due to Student Clubs	21,784
Accounts payable and accrued liabilities	<u>418,307</u>
Total Liabilities	<u>\$ 440,091</u>

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

**NEWTON MUNICIPAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

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

A. Financial Reporting Entity.

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the school district's governing board. As defined by accounting principles generally accepted in the United States of America, the school district is considered an "other stand-alone government." The school district is a related organization of, but not a component unit of, the city of Newton 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 statement consists of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-Wide Financial Statements:

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

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

Fund Financial Statements:

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

**NEWTON MUNICIPAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(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 of Activities consist primarily of state appropriations and federal awards.

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

The school district reports the following major governmental funds:

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

Displaced Students Grant Fund – This fund accounts for the Hurricane Katrina disaster relief grants revenues and expenditures.

Talent Search FY 2006 Fund – This fund accounts for the Educational Talent Search Federal Program for the program's fiscal year ending August 31, 2006.

Qualified Bonds Retirement Fund – This fund accounts for the QZAB bond revenue and expenditures.

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

Additionally the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

**NEWTON MUNICIPAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. – CONTINUED

C. Measurement Focus and Basis of Accounting. - 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. The primary revenue source is received from the State of Mississippi under the authority of the Mississippi Accountability and Adequate Education Program Act, Sections 37-151-1 through 37-151-7, Miss. Code Ann. (1972). Other revenue consists of local property taxes levied specifically for debt service.

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

FIDUCIARY FUNDS

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

D. Account Classifications.

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

E. Encumbrances.

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

F. Cash and Cash Equivalents.

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

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

G. Investments.

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

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

Investments are reported at fair value.

H. Inventories and Prepaid Items.

Donated inventories 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.)

**NEWTON MUNICIPAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. - CONTINUED

H. Inventories and Prepaid Items. – Continued

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

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

I. Capital Assets.

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

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

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are reported in the government-wide statements.

Depreciation is calculated on the straight-line basis for all assets, except land. The following schedule details those thresholds.

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

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

J. Long-term liabilities.

Long-term liabilities are the unmatured principal of bonds, warrants, notes, or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments. In the government-wide Statement of Net Assets, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column. (See Note 5 for details).

K. Interfund Transactions and Balances.

Interfund transactions and balances are the result of timing differences between the date expense/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.

**NEWTON MUNICIPAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

K. Interfund Transactions and Balances. - Continued

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

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

L. Equity Classifications.

Government-Wide Financial Statements:

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

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

Fund Financial Statements:

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

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

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

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

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

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

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

**NEWTON MUNICIPAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Unreserved – designated for, reported in special revenue funds – An account that represents a portion of the unreserved balance that the school board has specifically obligated for future uses.

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

N. Mississippi Adequate Education Program Revenues

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

O. Compensated Absences.

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

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

(2) CHANGES IN ACCOUNTING STANDARDS

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

(3) CASH AND CASH EQUIVALENTS, RESTRICTED CASH

Cash and Cash Equivalents.

The collateral for public entities' deposits in financial institutions are now 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.

**NEWTON MUNICIPAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(3) CASH AND CASH EQUIVALENTS, RESTRICTED CASH (CONTINUED)

The carrying amount of the school district's deposits with financial institutions reported in the governmental and fiduciary funds was \$2,266,995 and \$440,091, respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and cash equivalents \$1,985,238 and restricted assets \$281,758. The restricted assets represent Cash with Fiscal Agent of \$274,547 and 16th Section Principal funds (Permanent Funds) of \$7,211 which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$2,885,676.

Custodial Credit Risk – Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 20, 2006, the district's bank balance of \$2,885,676 was not exposed to custodial credit risk.

(4) INTERFUND TRANSACTIONS AND BALANCES.

The following is a summary of interfund transactions and balances:

A. Due From/To Other funds:

	<u>Due From</u>	<u>Due To</u>
Major Funds:		
General Fund	\$123,689	\$ -
Displaced Students Grant Fund	-	92,690
Talent Search FY 2006 Fund	-	15,000
Other governmental funds:	-	15,999
Total Funds	<u>\$123,689</u>	<u>\$123,689</u>

The amounts due to or from other funds represent amounts advanced or received for timing differences between revenues and expenditures and cash balances.

B. Transfers In/Out:

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Funds:		
General Fund	\$ 178,941	\$366,364
Talent Search FY 2006 Fund	-	4,166
Qualified Bonds Retirement Fund	55,000	-
Other governmental funds:	312,179	175,590
Total Funds	<u>\$546,120</u>	<u>\$546,120</u>

The transfers represent board approved operating transfers for school operations and planning purposes.

**NEWTON MUNICIPAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(5) CAPITAL ASSETS.

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

	<u>Balance</u> <u>6/30/2005</u>	<u>PPA</u>	<u>ADJ. Bal.</u> <u>6/30/2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Completed</u> <u>Construction</u>	<u>Balance</u> <u>6/30/2006</u>
Non-depreciable Capital							
Land	\$ 42,306		\$ 42,306	\$ -	\$ -	\$ -	42,306
Construction in Progress	553,214	-	553,214	55,523	-	(608,737)	-
Total Non-depreciable	<u>595,520</u>	<u>-</u>	<u>595,520</u>	<u>55,523</u>	<u>-</u>	<u>(608,737)</u>	<u>42,306</u>
Depreciable Capital Assets:							
Buildings	8,245,132	(102,575)	8,142,557	608,737	-	-	8,751,294
Improvements	81,281	(8,385)	72,896	-	-	-	72,896
Mobile Equipment	894,888		894,888	75,514	(40,500)	-	929,902
Furniture & Equipment	127,608		127,608	25,792	-	-	153,400
Leased Property under capital leases	23,580	-	23,580	-	-	-	23,580
Total depreciable capital	<u>9,372,489</u>	<u>(110,960)</u>	<u>9,261,529</u>	<u>710,043</u>	<u>(40,500)</u>	<u>-</u>	<u>9,931,072</u>
Less: Accumulated Depreciation							
Buildings	2,266,068	(73,338)	2,192,730	162,753	-	-	2,355,483
Improvements	57,889	(6,707)	51,182	1,784	-	-	52,966
Mobile Equipment	598,499		598,499	51,643	(36,449)	-	613,693
Furniture & Equipment	111,179		111,179	24,604	-	-	135,783
Leased Property under capital leases	23,344	-	23,344	-	-	-	23,344
Total Accumulated Depreciation	<u>3,056,979</u>	<u>(80,045)</u>	<u>2,976,934</u>	<u>240,784</u>	<u>(36,449)</u>	<u>-</u>	<u>3,181,269</u>
Total Depreciable Capital Assets							
Net of Accumulated Depreciation	<u>6,315,510</u>	<u>(30,915)</u>	<u>6,284,595</u>	<u>469,259</u>	<u>(4,051)</u>	<u>-</u>	<u>6,749,803</u>
Governmental Activities Capital Assets, Net of Accumulated Depreciation	<u>\$ 6,911,030</u>	<u>\$ (30,915)</u>	<u>\$ 6,880,115</u>	<u>\$ 524,782</u>	<u>\$ (4,051)</u>	<u>\$ (608,737)</u>	<u>\$ 6,792,109</u>

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$164,537
Support services	<u>76,247</u>
Total depreciation expense	<u>\$240,784</u>

The capital assets above include significant amounts of buildings and furniture and fixtures 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.

**NEWTON MUNICIPAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(6) LONG-TERM LIABILITIES.

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

	Balance			Balance	Amount
	<u>7/1/2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/2006</u>	<u>due within</u>
					<u>one year</u>
A. Limited Obligation Bonds Payable	\$ 1,830,000	\$ -	\$ 95,000	\$ 1,735,000	\$ 100,000
B. Qualified Zone Academy Bonds Payable	1,125,000	-	-	1,125,000	-
C. Other Loans Payable	11,327	-	5,000	6,327	5,000
D. Obligations Under Capital Leases	14,880	-	14,880	-	-
E. Compensated Absences Payable	55,640	-	-	55,640	-
	<u>\$ 3,036,847</u>	<u>\$ -</u>	<u>\$ 114,880</u>	<u>\$ 2,921,967</u>	<u>\$ 105,000</u>

A. Limited obligation bonds payable.

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
State aid capital improvement bonds, series 1998	4.40%-6%	05/01/1998	08/01/2018	<u>\$2,200,000</u>	<u>\$1,735,000</u>

**NEWTON MUNICIPAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(6) LONG-TERM LIABILITIES - CONTINUED

B. Limited obligation bonds payable.

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	100,000	79,563	179,563
2008	105,000	75,053	180,053
2009	110,000	70,268	180,268
2010	115,000	65,148	180,148
2011	120,000	59,683	179,683
2012-2016	685,000	205,221	890,221
2017-2021	500,000	36,575	536,575
Total	<u>\$1,735,000</u>	<u>\$591,511</u>	<u>\$2,326,511</u>

This debt will be retired from the MAEP Retirement Debt Service Fund.

C. Qualified zone academy bonds payable.

As more fully explained in **Note 9**, debt have been issued by the school district that qualifies as Qualified Zone Academy bonds. Debt currently outstanding is as follows:

<u>Description</u>	<u>Discount Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
QZAB Bond	N/A	07-20-2000	07-01-2010	<u>\$1,125,000</u>	<u>\$1,125,000</u>

This debt will be retired from the QZAB Retirement Debt Service Fund.

D. Other loans payable.

Debt currently outstanding is as follows:

<u>Description</u>	<u>Discount Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
EPA Loan	N/A	06-01-1990	12-01-2007	<u>\$88,900</u>	<u>\$6,327</u>

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

<u>Year Ending June 30,</u>	<u>Principal</u>
2007	5,000
2008	<u>1,327</u>
Total	<u>\$6,327</u>

This debt will be retired from the District Maintenance Fund.

E. 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.

**NEWTON MUNICIPAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(7) DEFINED BENEFIT PENSION PLAN.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary and the school district is required to contribute at an actuarially determined rate. The rate for fiscal year ending 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 \$549,127, \$506,012, and \$450,294 respectively, which equaled the required contributions for each year.

(8) SIXTEENTH SECTION LANDS.

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

Year Ending <u>June 30,</u>	<u>Amount</u>
2007	16,103
2008	15,703
2009	14,075
2010	14,075
2011	13,553
Thereafter	<u>126,054</u>
Total	<u>\$199,563</u>

**NEWTON MUNICIPAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(9) RISK MANAGEMENT

The school district is exposed to various risks of loss related to torts; theft of, damage to, and destruction as 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 approximately 119 school districts and covers risks of loss arising from injuries to the school district's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each 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 which will pay the excess up to \$25,000,000. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

**NEWTON MUNICIPAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(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 Trustmark National Bank, has entered into such an arrangement dated July 20, 2000.

One June 12, 2000, the Newton Municipal School District board of trustees adopted a resolution authorizing the issuance of a one million one hundred twenty-five thousand dollars (\$1,125,000) 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 and board president and secretary to execute all documents necessary to affect the issuance of the note.

The trust agreement authorized the issuance of trust certificates in the principal amount of \$1,125,000. Approximately \$1,078,315 was used to provide financing for the construction and renovation of school buildings and related facilities and equipment (the "project"); the remainder of approximately \$46,685 was used to pay the cost of issuance.

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 debt repayment shall be made from a combination of three mill – ten year notes, Education Enhancement Funds ("EEF Funds") and other Unrestricted Funds. 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 <u>June 30,</u>	<u>Amount</u>
2007	136,000
2008	136,000
2009	136,000
2010	136,000
2011	<u>130,000</u>
Total	<u>\$674,000</u>

**NEWTON MUNICIPAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(11) ALTERNATIVE SCHOOL CONSORTIUM

The school district entered into an Alternative School Agreement dated August 19, 1994, creating the East Central Alternative School Consortium. This consortium was created pursuant to the provisions of Section 37-13-92 (6), Miss. Code Ann. (1972), and approved by the Mississippi Department of Education and includes the Union Public School District, Scott County School District, Forest Municipal School District, Neshoba County School District, Newton Municipal School District and Newton County School District.

Section 37-13-92 (6), Miss. Code Ann. (1972), allows two or more adjacent school districts to enter into a contract to operate an alternative school program. The school board of the school district designated by the agreement as the lead district will serve as the governing board of the alternative school program. Transportation for students attending the alternative school program will be the responsibility of the individual school district sending the students.

The Newton County School District has been designated as the lead school district for the East Central Alternative School Consortium, and the operations of the consortium are included in its financial statements.

(12) SIGNIFICANT OTHER REVENUE

Included in Other Revenue in Exhibit B is \$100,470 which consists of insurance proceeds to reimburse the District for expenses due to Hurricane Katrina.

(13) PRIOR PERIOD ADJUSTMENT.

The District removed amounts for Capital Assets included in prior year financial statement that were below the District's capitalization thresholds. The District also settled an outstanding amount due the contractor of \$26,391 on High School Construction completed in 2000.

Capital Assets Removed	\$137,351
Less: Related Accumulated Depreciation	<u>80,045</u>
Prior Period Adjustment to Statement of Activities	\$57,306
Less: Capital Assets added in Current Year	<u>26,391</u>
Net Change to Capital Assets	<u>\$30,915</u>

NEWTON MUNICIPAL SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION

**NEWTON MUNICIPAL SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006**

SCHEDULE 1a

	<u>Budgeted Amounts</u>		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
REVENUES					
Local Sources	\$ 2,045,558	\$ 1,944,010	\$ 2,069,429	\$ (101,548)	\$ 125,419
State Sources	4,215,366	4,361,825	4,397,784	146,459	35,959
Federal Sources	<u>27,000</u>	<u>106,500</u>	<u>76,274</u>	<u>79,500</u>	<u>(30,226)</u>
TOTAL REVENUES	<u>6,287,924</u>	<u>6,412,335</u>	<u>6,543,487</u>	<u>124,411</u>	<u>131,152</u>
EXPENDITURES					
Instruction	3,816,418	4,056,809	3,875,611	(240,390)	181,198
Support Services	2,566,541	2,631,201	2,665,364	(64,661)	(34,163)
Noninstructional Services	29,850	33,250	32,564	(3,400)	686
Debt Service:					
Principal	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	<u>6,417,809</u>	<u>6,726,260</u>	<u>6,578,539</u>	<u>(308,451)</u>	<u>147,721</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(129,885)</u>	<u>(313,925)</u>	<u>(35,052)</u>	<u>(184,040)</u>	<u>278,873</u>
OTHER FINANCING SOURCES (USES)					
Operating Transfers In	116,287	186,318	178,941	70,031	(7,376)
Operating Transfers Out	<u>(322,447)</u>	<u>(399,287)</u>	<u>(366,364)</u>	<u>(76,840)</u>	<u>32,922</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(206,160)</u>	<u>(212,969)</u>	<u>(187,423)</u>	<u>(6,809)</u>	<u>25,546</u>
NET CHANGE IN FUND BALANCES	(336,045)	(526,894)	(222,475)	(190,849)	304,419
FUND BALANCE, JULY 1, 2005	<u>1,722,480</u>	<u>1,641,335</u>	<u>1,641,335</u>	<u>(81,145)</u>	<u>(0)</u>
FUND BALANCE, JUNE 30, 2006	<u>\$ 1,386,435</u>	<u>\$ 1,114,441</u>	<u>\$ 1,418,860</u>	<u>\$ (271,994)</u>	<u>\$ 304,419</u>

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

**NEWTON MUNICIPAL SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE DISPLACED STUDENTS GRANT FUND
FOR THE YEAR ENDED JUNE 30, 2006**

SCHEDULE 1b

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
REVENUES					
Federal Sources	\$ -	\$ 106,150	\$ 92,690	\$ 106,150	\$ (13,460)
EXPENDITURES					
Support Services	-	106,150	92,690	(106,150)	13,460
TOTAL EXPENDITURES	-	106,150	92,690	(106,150)	13,460
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	-	-	-	-
OTHER FINANCING SOURCES (USES)					
Operating Transfers Out	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-	-
NET CHANGE IN FUND BALANCES	-	-	-	-	-
FUND BALANCE, JULY 1, 2005	-	-	-	-	-
FUND BALANCE, JUNE 30, 2006	\$ -	\$ -	\$ -	\$ -	\$ -

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

**NEWTON MUNICIPAL SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE TALENT SEARCH FY 2006 FUND
FOR THE YEAR ENDED JUNE 30, 2006**

SCHEDULE 1c

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variances Positive (Negative)</u>	
	<u>Original</u>	<u>Final</u>		<u>Original to Final</u>	<u>Final to Actual</u>
	REVENUES				
Federal Sources	\$ 373,025	\$ 341,146	\$ 341,146	\$ (31,879)	\$ -
TOTAL REVENUES	\$ 373,025	\$ 341,146	\$ 341,146	\$ (31,879)	\$ -
EXPENDITURES					
Support Services	363,025	320,809	320,809	42,216	-
TOTAL EXPENDITURES	363,025	320,809	320,809	42,216	-
OTHER FINANCING SOURCES (USES)					
Operating Transfers Out	(10,000)	(4,166)	(4,166)	5,834	-
TOTAL OTHER FINANCING SOURCES (USES)	(10,000)	(4,166)	(4,166)	5,834	-
NET CHANGE IN FUND BALANCES	-	16,171	16,171	16,171	-
FUND BALANCE, JULY 1, 2005	-	-	-	-	-
FUND BALANCE, JUNE 30, 2006	\$ -	\$ 16,171	\$ 16,171	\$ 16,171	\$ -

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

**NEWTON MUNICIPAL SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE QUALIFIED BOND RETIREMENT FUND
FOR THE YEAR ENDED JUNE 30, 2006**

SCHEDULE 1d

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
	REVENUES				
Local Sources	\$ 101,400	\$ 126,017	\$ 126,017	\$ 24,617	\$ -
EXPENDITURES					
Debt Service	-	-	563	-	(563)
TOTAL EXPENDITURES	-	-	563	-	(563)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	101,400	126,017	125,454	24,617	(563)
OTHER FINANCING SOURCES (USES)					
Operating Transfers In	-	-	55,000		
Payments to Escrow Agent	-	136,000	-	(136,000)	(136,000)
TOTAL OTHER FINANCING SOURCES (USES)	-	136,000	55,000	(136,000)	(136,000)
NET CHANGE IN FUND BALANCES	101,400	(9,983)	180,454	(111,383)	(136,563)
FUND BALANCE, JULY 1, 2005	199,073	199,073	199,073	-	-
FUND BALANCE, JUNE 30, 2006	\$ 300,473	\$ 189,089	\$ 379,527	\$ (111,383)	\$ (136,563)

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

**NEWTON MUNICIPAL SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2006**

Budgetary Comparison Schedule

(1) Basis of Presentation.

The Budgetary Comparison Schedule 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 budgets and the actual data.

(2) Budget amendments and revisions.

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

(3) Individual Fund Disclosures

Individual funds that have an excess of expenditures over budget, including amounts of the excess are as follows:

<u>Individual Fund</u>	<u>Amount</u>
General Fund	\$14,477
MAEP Bond Retirement	565
QZAB Bond Retirement	562
Displaced Student Fund	1,869

The funds with an excess of expenditures over budget are not in violation of state law since the excess resulted from auditor's adjustments

NEWTON MUNICIPAL SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

**NEWTON MUNICIPAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

SCHEDULE 1

Federal Grantor/ Pass-Through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>		
Passed-Through Mississippi Dept. of Education:		
Non-Cash Assistance:		
Food Donation	10.550	\$ 28,392
Child Nutrition Cluster		
School Breakfast Program	10.553	119,123
National School Lunch Program	10.555	362,382
Total		481,505
Total U.S. Dept. of Agriculture		509,897
<u>FEDERAL COMMUNICATIONS COMMISSION</u>		
Administered through the Universal Service Administrative Company		
The schools and libraries program of the universal service fund	32.XXX	18,857
Total Federal Communications Commission		18,857
<u>U.S. DEPARTMENT OF EDUCATION</u>		
Passed-Through Mississippi Dept. of Education:		
Title I - Grants to Local Educational Agencies	84.010	305,664
TRIO - Talent Search	84.044	375,905
Vocational Education - Basic Grants to States	84.048	25,911
Safe and Drug-Free Schools and Communities - State Grants	84.186	16,190
State Grants for Innovative Programs	84.298	2,440
Education Technology State Grants	84.318	9,825
Rural Education Achievement Program	84.358	33,585
Improving Teacher Quality - State Grants	84.367	100,003
Hurricane Education Recovery Act programs	84.938	100,166
Special Education Cluster:		
Special education - Grants to States	84.027	272,844
Special Education - Preschool Grants	84.173	23,273
Total		296,117
Total U.S. Department of Education		1,265,806
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>		
Passed-through the Mississippi Emergency Management Agency:		
Disaster Grants-Public Assistance (Presidentially Declared Disasters)	97.036	3,721
Total U.S. Department of Homeland Security		3,721
Total for all Federal Awards		\$ 1,798,281

NOTES TO THE SCHEDULE:

1. This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the financial statements.
2. The expenditure amounts include transfers out.
3. The pass-through entities did not assign identifying numbers to the school district.

**NEWTON MUNICIPAL 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>Instructional and Other Student Instructional Expenditures</u>	<u>General Administrative</u>	<u>School Administrative</u>	<u>Other</u>
Salaries and fringe benefits	\$ 7,043,147	\$ 5,509,728	\$ 442,480	\$ 429,425	\$ 661,514
Other	<u>2,272,734</u>	<u>673,024</u>	<u>171,844</u>	<u>22,664</u>	<u>1,405,202</u>
 Total	 <u>\$ 9,315,881</u>	 <u>\$ 6,182,752</u>	 <u>\$ 614,324</u>	 <u>\$ 452,089</u>	 <u>\$ 2,066,716</u>
 Total number of students	 1,011				
Cost per student \$	9,215	\$ 6,115	\$ 608	\$ 447	2,044

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

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

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

NEWTON MUNICIPAL SCHOOL DISTRICT
REPORTS ON COMPLIANCE AND INTERNAL CONTROL

HOLT & ASSOCIATES, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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Founder (1915 - 1997)

Members:
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Mississippi Society of
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Division of CPA Firms
Private Companies Practice Section

INDEPENDENT AUDITOR'S 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
Newton Municipal School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Newton Municipal School District as of and for the year ended June 30, 2006 which collectively comprise the Newton Municipal School District's basic financial statements and have issued our report thereon dated November 10, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the school district's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control 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 would we consider to be material weaknesses.

Superintendent and School Board
Newton Municipal School District
Page two

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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*. However, we noted certain immaterial instances of noncompliance that were reported to management of the School District in a separate letter dated November 10, 2006, which is included in this report.

This report is intended solely for the information 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.

Holt + Associates

November 10, 2006

HOLT & ASSOCIATES, PLLC

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

Superintendent and School Board
Newton Municipal School District

Compliance

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and 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.

Superintendent and School Board
Newton Municipal School District
Page two

As described in items 2006-1 through 2006-3 in the accompanying schedule of findings and questioned costs, Newton Municipal School District did not comply with requirements regarding reporting and special tests and provisions applicable to its Hurricane Education Recovery Grant. Compliance with such requirements is necessary, in our opinion, for Newton Municipal School District to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Newton Municipal 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 Newton Municipal School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the school district's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did not note any matters involving internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information 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.

Holt & Associates

November 10, 2006

NEWTON MUNICIPAL SCHOOL DISTRICT

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

HOLT & ASSOCIATES, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

W. David Dill, CPA
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Julie M. Brown, CPA

Neal Bumpus, CPA
Stephanie Guthrie, CPA

H. I. Holt, CPA
Founder (1915 - 1997)

Members:
American Institute of
Certified Public Accountants

Mississippi Society of
Certified Public Accountants

Division of CPA Firms
Private Companies Practice Section

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

Superintendent and School Board
Newton Municipal School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Newton Municipal School District as of and for the year ended June 30, 2006, which collectively comprise Newton Municipal School District's basic financial statements and have issued our report thereon dated November 10, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed an instance of noncompliance. The noncompliance is reported in finding number 1 below. The District reported \$7,718 of classroom supply funds carried over from previous years.

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements disclosed the following immaterial instance of noncompliance with other state laws and regulations. Our finding and recommendation are as follows:

Finding #1: The District did not advertise for bids on depositories in accordance with Section 37-7-333.

Recommendation: We recommend the District comply with Section 37-7333 by advertising for depositories.

Response: The District plans to advertise for depositories in accordance with Section 37-7-333.

This report is intended for the information 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.

Holt & Associates

November 10, 2006

NEWTON MUNICIPAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

NEWTON MUNICIPAL SCHOOL DISTRICT
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2006

Section 1: Summary of Auditor's Results

Financial Statements:

- | | |
|--|--------------------|
| 1. Type of auditor's report issued on the basic financial statements: | <u>Unqualified</u> |
| 2. Material noncompliance relating to the basic financial statements? | <u>No</u> |
| 3. Internal control over financial reporting: | |
| a. Material weakness(es) identified? | <u>No</u> |
| b. Reportable condition(s) identified that are not considered to be material weaknesses? | <u>No</u> |

Federal Awards:

- | | |
|--|------------------|
| 4. Type of auditor's report issued on compliance for major federal programs: | <u>Qualified</u> |
| 5. Internal control over major programs: | |
| a. Material weakness(es) identified? | <u>No</u> |
| b. Reportable condition(s) identified that are not considered to be material weaknesses? | <u>No</u> |
| 6. Any audit finding(s) reported as required by section __.510(a) of Circular A-133? | <u>Yes</u> |
| 7. Federal programs identified as major programs: | |
| a. <u>Hurricane Education Recovery</u>
CFDA #: <u>84.938</u> | |
| b. <u>Disaster Grants - Public Assistance (Presidentially Declared Disaster Area)</u>
CFDA #: <u>97.036</u> | |
| c. <u>Title 1 - Grants to Local Educational Agencies</u>
CFDA #: <u>84.010</u> | |
| d. <u>Improving Teacher Quality - State Grants</u>
CFDA #: <u>84.367</u> | |

- | | |
|--|------------------|
| 8. The dollar threshold used to distinguish between type A and type B programs: | <u>\$300,000</u> |
| 9. Auditee qualified as a low-risk auditee? | <u>Yes</u> |
| 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? | <u>No</u> |

Section 2: Financial Statement Findings

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

Section 3: Federal Award Findings and Questioned Costs

The results of our tests disclosed the following findings related to the federal awards:

Finding 2006-1:

Information: Hurricane Education Recovery (CFDA 84.938)

Criteria: Internal controls should be in place to ensure that reports are correctly filled out.

Condition: The District used the incorrect dates to report the number of displaced students enrolled.

Questioned Cost: This resulted in an overstatement of eligible students resulting in overfunding of \$10,091.

Cause: The number of eligible students was overstated.

Effect: The District received excess funding of \$10,091.

Recommendation: The District should implement procedures to ensure that all reports are filled out with accurate information.

Management Response: The oversight agency (Mississippi Department of Education) has been made aware of the overstatement. The District is waiting on further instructions from them. Future reports will be verified by a second party before submission

Finding 2006-2:

Information: Hurricane Education Recovery (CFDA 84.938)

Criteria: Internal controls should be in place to ensure that all documents are maintained and readily available as needed.

Condition: The District was unable to provide the comprehensive application for displaced student funds, including the assurances and summary budgets on how funds will be spent.

Questioned Cost: No cost associated with Finding 2006-2.

Cause: The District could not provide comprehensive application, including assurances and summary budgets.

Effect: The oversight agency was delayed in the receipt of the comprehensive application.

Recommendation: Implement procedures so that all documents will be submitted in a timely manner.

Management Response: The District has produced the comprehensive application and forwarded it to the oversight agency.

Finding 2006-3:

Information: Hurricane Education Recovery (CFDA 84.938)

Criteria: Internal Controls should be in place to ensure that appropriate records are maintained.

Condition: The District did not have previous addresses on file for displaced students.

Questioned Cost: No cost associated with Finding 2006-3.

Cause: The District did not have previous addresses on file for displaced students.

Effect: The oversight agency was delayed in the receipt of previous addressees of displaced students.

Recommendation: Implement procedures to ensure that all required records be maintained so that these records may be submitted in a timely manner.

Management Response: The District has provided previous addresses on displaced students to the oversight agency.

NEWTON MUNICIPAL SCHOOL DISTRICT

**AUDITEE'S CORRECTIVE ACTION PLAN
AND/OR
SCHEDULE OF PRIOR AUDIT FINDINGS**

Newton Municipal School District

*P.O. Box 150
205 School Street
Newton, Mississippi 39345*

Mr. Raymond Clark, Superintendent

Phone 601-683-2451 / Fax 601-683-7131

Financial & Compliance Audit Division

As required by Section ____ .315(b) of OMB Circular A-133, the Newton Municipal School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2006:

2006-1 The oversight agency (Mississippi Department of Education) has been made aware of the overstatement. The District is waiting on further instructions from them. Future reports will be verified by a second party before submission.

2006-2 The District has produced the comprehensive application and forwarded it to the oversight agency.

2006-3 The District has provided previous addresses on displaced students to the oversight agency.

As required by Section ____ .315 (b) of OMB Circular A-133, the Newton Municipal School District has prepared and hereby submits the following summary schedule of prior audit findings as of June 30, 2005:

Not Applicable