



The following document was not prepared by the Office of the State Auditor, but was prepared by and submitted to the Office of the State Auditor by a private CPA firm. The document was placed on this web page as it was submitted. The Office of the State Auditor assumes no responsibility for its content or for any errors located in the document. Any questions of accuracy or authenticity concerning this document should be submitted to the CPA firm that prepared the document. The name and address of the CPA firm appears in the document.

**NORTH TIPPAH SCHOOL DISTRICT
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

**NORTH TIPPAH SCHOOL DISTRICT
AUDITED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED JUNE 30, 2006

TABLE OF CONTENTS

	<u>Page</u>
Financial Audit Report:	
Independent Auditors' Report on the Basic Financial Statements and Supplemental Information	5
Management's Discussion and Analysis	8
Financial Statements:	
Exhibit A - Statement of Net Assets	17
Exhibit B - Statement of Activities	18
Exhibit C - Balance Sheet - Governmental Funds	19
Exhibit C-1 - Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets	20
Exhibit D - Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	21
Exhibit D-1 - Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	22
Exhibit E - Statement of Fiduciary Net Assets	23
Notes to Financial Statements	24
Required Supplementary Information:	
Schedule 1 - Budgetary Comparison Schedule for the General Fund	36
Schedule 2 - Budgetary Comparison Schedule for the Extended School Year Fund	37
Schedule 3 - Budgetary Comparison Schedule for the Special Education Fund	38
Notes to the Required Supplementary Information	39
Supplemental Information:	
Schedule of Expenditures of Federal Awards	41
Schedule of Instructional, Administrative, and Other Expenditures - Governmental Funds	42

**NORTH TIPPAH SCHOOL DISTRICT
AUDITED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED JUNE 30, 2006

**TABLE OF CONTENTS
(Continued)**

	<u>Page</u>
Reports on Internal Control and Compliance:	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	44
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	46
Independent Auditors' Report on Compliance with State Laws and Regulations	49
Schedule of Findings and Questioned Costs	51
Summary of Prior Audit Findings	54

FINANCIAL AUDIT REPORT

Eaton, Babb & Smith

A Professional Association
Certified Public Accountants/Financial Consultants

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

Superintendent and School Board
North Tippah School District

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2006, on our consideration of the North Tippah School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 8 through 15 and the Budgetary Comparison Schedules and corresponding notes on pages 36 through 39 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Eaton, Babb & Smith

Ripley, Mississippi
November 6, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The discussion and analysis of the North Tippah 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 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 increased \$193,954, which represents a 4.16% increase from fiscal year 2005.
- General revenues account for \$7,890,154, or 79.99% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$1,973,940 or 20.01% of total revenues.
- The District had \$9,670,140 in expenses; only \$1,973,940 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$7,890,154 were adequate to provide for these programs.
- Among major funds, the General Fund had \$7,991,866 in revenues and \$7,868,080 in expenditures. The General Fund's fund balance increased \$120,560 over the prior year.
- Capital assets, net of accumulated depreciation, increased by \$98,667.
- Long-term liabilities decreased by \$159,936.

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 services and interest on long-term liabilities.

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

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

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

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

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

The basic governmental fund financial statements can be found on pages 19 and 21 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 a separate Statement of Fiduciary Net Assets on page 23.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24-34 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.

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 special revenue 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 a schedule of instructional, administrative and other expenditures for governmental funds can be found on pages 41 and 42, respectively, of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$4,859,333 as of June 30, 2006.

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

The following table presents a summary of the District's net assets as of June 30, 2006 and 2005, respectively.

	Net Assets		Percentage Change
	June 30, 2006	June 30, 2005	
Current assets	\$ 3,206,542	\$ 3,288,022	-2.48%
Capital assets, net	2,236,856	2,138,189	4.61%
Total Assets	5,443,398	5,426,211	.32%
Current liabilities	79,137	95,968	-17.53%
Long-term liabilities	504,928	664,864	-24.05%
Total Liabilities	584,065	760,832	-23.23%
Net assets:			
Invested in capital assets, net of related debt	1,829,773	1,578,189	15.94%
Restricted	253,768	431,894	-41.24%
Unrestricted	2,775,792	2,655,296	4.54%
Total net assets	\$ 4,859,333	\$ 4,665,379	4.16%

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

- The principal retirement of \$172,672 of long-term liabilities.
- The addition of \$187,650 in capital assets from the purchase of three buses and other mobile equipment for \$160,150 and the addition of a new roof for \$27,500.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2006 were \$9,864,094. The total cost of all programs and services was \$9,670,140. The following table presents a summary of the changes in net assets for the fiscal years ending June 30, 2006 and 2005, respectively.

	Change in Net Assets		Percentage Change
	June 30, 2006	June 30, 2005	
Revenues:			
Program revenues:			
Charges for services	\$ 609,870	\$ 596,480	2.24%
Operating grants and contributions	1,364,070	1,277,051	6.81%
General revenues:			
Property taxes	944,458	939,605	.52%
Unrestricted grants and contributions	6,700,870	6,497,911	3.12%
Unrestricted investment earnings	157,061	125,385	25.26%
Other	87,765	37,454	134.33%
Total revenues	9,864,094	9,473,886	4.12%
Expenses:			
Instruction	5,868,895	5,519,380	6.33%
Support services	3,003,907	2,815,581	6.69%
Non-instructional	779,626	731,769	6.54%
Interest on long-term liabilities	17,712	25,005	-29.17%
Total expenses	9,670,140	9,091,735	6.36%
Increase in net assets	193,954	382,151	-49.25%
Net Assets, July 1	4,665,379	4,283,228	8.92%
Net Assets, June 30	\$ 4,859,333	\$ 4,665,379	4.16%

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

- The increase in the interest rate earned on deposits paid by the District's new depository.
- The receipt of insurance proceeds of \$64,591 for storm damage to fully depreciated roofs.

Governmental activities. The following table presents the cost of four major District functional activities: instruction, support services, non-instructional and interest on long-term liabilities for fiscal years ending June 30, 2006 and 2005, respectively. 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	\$ 5,868,895	\$ (4,804,023)	\$ 5,519,380	\$ (4,476,435)
Support services	3,003,907	(2,705,528)	2,815,581	(2,535,087)
Non-instructional	779,626	(168,937)	731,769	(181,677)
Interest on long-term liabilities	17,712	(17,712)	25,005	(25,005)
Total expenses	\$ 9,670,140	\$ (7,696,200)	\$ 9,091,735	\$ (7,218,204)

- Net cost of governmental activities (\$7,696,200) was financed by general revenue, which is made up primarily of property taxes of \$944,458 and state revenue of \$6,615,120.
- Interest earnings accounted for \$157,061 of funding.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$3,134,488, a decrease of \$67,774, including an increase in reserve for inventory of \$779, due primarily to the purchase of capital assets and the receipt of insurance proceeds for storm damage to buildings. \$3,089,934 or 98.58% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$44,554 or 1.42% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$120,560, partly a result of the District's receipt of insurance proceeds for storm damage to buildings. The fund balance of Other Governmental Funds showed a decrease of \$189,113 due primarily to the purchase of capital assets.

BUDGETARY HIGHLIGHTS

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

- Budgeted amounts for General Fund revenue from state sources were decreased, and budgeted amounts for the state revenue of a special revenue fund were increased.
- Budgeted amounts for facilities acquisition and construction expenditures were decreased due to school construction being delayed because of high construction costs.
- Actual expenditures for maintenance and operations of school facilities and transportation costs were below budgeted levels.
- Actual expenditures were below budget, primarily because the District budgets from fund balance for unplanned expenditures (contingencies). The District didn't spend the entire contingency amount.

Schedules showing the original and final budget amounts compared to the District's actual financial activity for the General Fund and other major special revenue funds are 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 \$4,878,583, including land, school buildings, buses, other school vehicles and furniture and equipment. (See Table 4.) This amount represents an increase of \$102,200 from the previous year. Total accumulated depreciation as of June 30, 2006 was \$2,641,727 and total depreciation expense for the year was \$79,178, resulting in total net assets of \$2,236,856.

	<u>Capital Assets, Net of Depreciation</u>		<u>Percentage Change</u>
	<u>2006</u>	<u>2005</u>	
Land	\$ 102,827	\$ 102,827	0.00%
Construction in progress	156,875	156,875	0.00%
Buildings	1,554,051	1,581,562	-1.74%
Building improvements	49,605	24,655	101.20%
Improvements other than buildings	37,335	39,668	-5.88%
Mobile equipment	300,446	187,444	60.29%
Furniture and equipment	35,717	45,158	-20.91%
Totals	\$ 2,236,856	\$ 2,138,189	4.61%

Additional information of the District's capital assets can be found in Note 5 on page 31 of this report.

Debt Administration. At June 30, 2006, the District had \$504,928 in limited obligation bonds and other long-term liabilities outstanding, of which \$170,000 is due within one year. The District is required to pay interest semi-annually on its limited obligation bonds and make principal payments each August.

	<u>Outstanding Liabilities</u>		<u>Percentage Change</u>
	<u>2006</u>	<u>2005</u>	
Limited obligation bonds payable	\$ 400,000	\$ 560,000	-28.57%
Shortfall notes payable	-	12,672	-100.00%
Compensated absences payable	104,928	92,192	13.81%
Total Long-Term Liabilities	\$ 504,928	\$ 664,864	-24.06%

Additional information of the District's long-term liabilities can be found in Note 6 on pages 32-33 of this report.

CURRENT ISSUES

The North Tippah School District is financially stable. The District is proud of its community support of the public schools.

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

Latest enrollment figures indicate that student enrollment in the District will be stable for the next few years. The budget for the next fiscal year has taken this into account for both funding and staffing needs.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the North Tippah School District, P. O. Box 65, Tiplersville, MS 38674.

FINANCIAL STATEMENTS

**NORTH TIPPAAH SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006**

Exhibit A

	<u>Governmental Activities</u>
ASSETS:	
Cash and cash equivalents	\$ 3,052,445
Due from other governments	133,322
Inventories and prepaid items	20,775
Capital assets, not being depreciated:	
Land	102,827
Construction in progress	156,875
Capital assets, net of accumulated depreciation:	
Buildings	1,554,051
Building improvements	49,605
Improvements other than buildings	37,335
Mobile equipment	300,446
Furniture and equipment	35,717
Total Assets	<u><u>\$ 5,443,398</u></u>
LIABILITIES:	
Accounts payable and accrued liabilities	\$ 59,864
Deferred revenue	12,190
Interest payable on long-term liabilities	7,083
Long-term liabilities, due within one year:	
Capital related liabilities	170,000
Long-term liabilities, due beyond one year:	
Capital related liabilities	230,000
Non-capital related liabilities	104,928
Total Liabilities	<u><u>584,065</u></u>
NET ASSETS:	
Investment in capital assets, net of related debt	1,836,856
Restricted net assets:	
Expendable:	
School-based activities	229,989
Debt service	327
Unemployment benefits	23,452
Unrestricted	2,768,709
Total Net Assets	<u><u>4,859,333</u></u>
Total Liabilities and Net Assets	<u><u>\$ 5,443,398</u></u>

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

**NORTH TIPPAH SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006**

Exhibit B

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Instruction	\$ 5,868,895	\$ 427,889	\$ 636,983	\$ -	\$ (4,804,023)
Support services	3,003,907	-	298,379	-	(2,705,528)
Non-instructional services	779,626	181,981	428,708	-	(168,937)
Interest on long-term liabilities	17,712	-	-	-	(17,712)
Total Governmental Activities	\$ 9,670,140	\$ 609,870	\$ 1,364,070	\$ -	\$ (7,696,200)

General Revenues:

Taxes:	
General purpose levies	944,458
Unrestricted grants and contributions:	
State	6,615,120
Federal	85,750
Unrestricted investment earnings	157,061
Other	87,765
Total General Revenues	7,890,154
Change in Net Assets	193,954
Net Assets - Beginning	4,665,379
Net Assets - Ending	\$ 4,859,333

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

**NORTH TIPPAH SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2006**

Exhibit C

	Major Funds				Total Governmental Funds
	General Fund	Extended School Year Fund	Special Education Fund	Other Governmental Funds	
ASSETS					
Cash and cash equivalents	\$ 2,810,186	\$ -	\$ -	\$ 242,259	\$ 3,052,445
Due from other governments	90,217	10,763	10,019	22,323	133,322
Due from other funds	26,261	-	-	-	26,261
Inventories and prepaid items	-	-	-	20,775	20,775
Total Assets	\$ 2,926,664	\$ 10,763	\$ 10,019	\$ 285,357	\$ 3,232,803
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	\$ 45,944	\$ 6,291	\$ 5,625	\$ 2,004	\$ 59,864
Due to other funds	-	4,472	4,394	17,395	26,261
Deferred revenue	-	-	-	12,190	12,190
Total Liabilities	45,944	10,763	10,019	31,589	98,315
Fund Balances:					
Reserved for:					
Inventory	-	-	-	20,775	20,775
Debt service	-	-	-	327	327
Unemployment benefits	-	-	-	23,452	23,452
Unreserved:					
Undesignated, reported in:					
General Fund	2,880,720	-	-	-	2,880,720
Special Revenue Funds	-	-	-	209,214	209,214
Total Fund Balances	2,880,720	-	-	253,768	3,134,488
Total Liabilities and Fund Balances	\$ 2,926,664	\$ 10,763	\$ 10,019	\$ 285,357	\$ 3,232,803

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

**NORTH TIPPAH 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 **\$ 3,134,488**

Amounts reported for governmental activities in the Statement
of Net Assets are different because:

1. Capital assets are used in governmental activities and are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$2,641,727. 2,236,856

2. Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. (504,928)

3. Governmental funds recognize interest on long-term liabilities when it becomes due; however, the Statement of Net Assets recognizes interest as it accrues. (7,083)

Total Net Assets - Governmental Activities **\$ 4,859,333**

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

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

Exhibit D

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	Extended School Year Fund	Special Education Fund		
REVENUES:					
Local sources	\$ 1,541,201	\$ -	\$ -	\$ 192,572	\$ 1,733,773
State sources	6,367,654	21,144	-	391,094	6,779,892
Federal sources	83,011	-	327,085	874,952	1,285,048
Total Revenues	7,991,866	21,144	327,085	1,458,618	9,798,713
EXPENDITURES:					
Instruction	4,913,526	21,144	193,905	670,825	5,799,400
Support services	2,730,828	-	133,180	253,982	3,117,990
Non-instructional services	168,826	-	-	599,340	768,166
Facilities acquisition and construction	54,900	-	-	-	54,900
Debt service:					
Principal	-	-	-	172,672	172,672
Interest	-	-	-	20,837	20,837
Total Expenditures	7,868,080	21,144	327,085	1,717,656	9,933,965
Excess (Deficiency) of Revenues over Expenditures	123,786	-	-	(259,038)	(135,252)
OTHER FINANCING SOURCES (USES):					
Insurance loss recoveries	64,591	-	-	-	64,591
Sale of transportation equipment	2,108	-	-	-	2,108
Operating transfers in	-	-	-	69,925	69,925
Operating transfers out	(69,925)	-	-	-	(69,925)
Total Other Financing Sources (Uses)	(3,226)	-	-	69,925	66,699
NET CHANGE IN FUND BALANCES	120,560	-	-	(189,113)	(68,553)
FUND BALANCES:					
July 1, 2005	2,760,160	-	-	442,102	3,202,262
Increase in Reserve for Inventory	-	-	-	779	779
June 30, 2006	\$ 2,880,720	\$ -	\$ -	\$ 253,768	\$ 3,134,488

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

**NORTH TIPPAH SCHOOL DISTRICT
RECONCILIATION OF 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 **\$ (68,553)**

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 lives of the assets. Capital assets purchased amounted to \$187,650, and the depreciation expense amounted to \$79,178. | 108,472 |
| 2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Activities. | 172,672 |
| 3. Governmental funds recognize interest on long-term debt when it becomes due; however, the Statement of Activities recognizes interest as it accrues regardless of when it becomes due. | 3,125 |
| 4. Gains and losses on the sale or disposal of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds. | (9,805) |
| 5. Increase (decrease) in inventory is reported as an adjustment to fund balance in the governmental funds, but non-instructional expenditures are (decreased) increased in the Statement of Activities. | 779 |
| 6. Expenses in the Statement of Activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds: | |
| Compensated absences | (12,736) |

Change in Net Assets of Governmental Activities **\$ 193,954**

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

**NORTH TIPPAH SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2006**

Exhibit E

	<u>Agency Funds</u>
ASSETS:	
Cash and cash equivalents	\$ 460,189
Accrued interest receivable	<u>60</u>
Total Assets	<u><u>\$ 460,249</u></u>
 LIABILITIES:	
Accounts payable and accrued liabilities	\$ 422,544
Due to student clubs	<u>37,705</u>
Total Liabilities	<u><u>\$ 460,249</u></u>

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

**NORTH TIPPAH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

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

B. Basis of Presentation

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

Government-Wide Financial Statements :

The Statement of Net Assets and Statement of Activities display information about the school district as a whole. They include all funds of the reporting entity except for fiduciary funds. 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 a separate accounting entity. 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.

**NORTH TIPPAH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting

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

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

The school district reports the following major governmental funds:

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

Extended School Year Fund - This fund is used to provide services to special education children beyond the normal school year.

Special Education Fund - This fund accounts for a federal grant which is used to provide for requirements of special needs students.

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.

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.

**NORTH TIPPAH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

E. Encumbrances

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

F. Cash and Cash Equivalents

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

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

G. Investments

The school district can invest its excess funds, as permitted by Section 29-3-113, Mississippi Code Ann. (1972), in interest-bearing deposits or other obligations of the types described in Section 27-105-33, Mississippi 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 commodities are received from the USDA and are valued at USDA cost. Other inventories are valued at cost (calculated on the first-in, first-out basis).

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

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

**NORTH TIPPAH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

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

J. Long-Term Liabilities

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

K. Interfund Transactions and Balances

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

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

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect them 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 yearend. 27

**NORTH TIPPAH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Equity Classifications

Government-Wide Financial Statements:

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

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

Fund Financial Statements:

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

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

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

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

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

M. Property Taxes

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

N. Mississippi Adequate Education Program Revenues

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

**NORTH TIPPAH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Compensated Absences

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

P. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Estimates are used when accounting for realizability of receivables and depreciation. Accordingly, actual results could differ from those estimates.

NOTE 2 - CHANGES IN ACCOUNTING STANDARDS

As required, the North Tappah 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 affecting capital assets to determine whether they are impaired. Such events include physical damage, changes in legal or environmental factors, technology changes or obsolescence, changes in the manner or duration of use and construction stoppage. Appropriate note disclosures have been incorporated to comply with the requirements of this standard.

NOTE 3 - CASH AND CASH EQUIVALENTS

The district follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Restrictions on deposits are imposed by the statutes as follows: Deposits. The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the school district's deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Mississippi 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.

**NORTH TIPPAH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$3,052,445 and \$460,189, respectively. The carrying amount of deposits reported in the government-wide financial statements was: Cash and Cash Equivalents - \$3,052,445. The bank balance was \$3,800,093.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2006, none of the district's bank balance of \$3,800,093 was exposed to custodial credit risk.

NOTE 4 - INTERFUND TRANSACTIONS AND BALANCES

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:	<u>Due From</u>	<u>Due To</u>
Governmental Funds:		
General fund	\$ 26,261	\$ -
Extended school year fund	-	4,472
Special education fund	-	4,394
Other governmental funds	-	17,395
Fiduciary Funds	<u>-</u>	<u>-</u>
Total	<u>\$ 26,261</u>	<u>\$ 26,261</u>

Interfund receivables and payables resulted primarily from the general fund's loans to various special revenue funds to cover cash deficits in pooled bank accounts.

B. Transfers In/Out:	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
General fund	\$ -	\$ 69,925
Extended school year fund	-	-
Special education fund	-	-
Other governmental funds	69,925	-
Fiduciary Funds	<u>-</u>	<u>-</u>
Total	<u>\$ 69,925</u>	<u>\$ 69,925</u>

Interfund transfers were made by the general fund to the debt service funds for the payment of long-term liabilities.

**NORTH TIPPAH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

NOTE 5 - CAPITAL ASSETS

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

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2006</u>
<u>Non-depreciable capital assets:</u>				
Land	\$ 102,827	\$ -	\$ -	\$ 102,827
Construction in progress	156,875	-	-	156,875
Total non-depreciable capital assets	<u>259,702</u>	<u>-</u>	<u>-</u>	<u>259,702</u>
<u>Depreciable capital assets:</u>				
Buildings	3,423,483	-	-	3,423,483
Building improvements	36,257	27,500	-	63,757
Improvements other than buildings	58,334	-	-	58,334
Mobile equipment	828,068	160,150	85,450	902,768
Furniture and equipment	170,539	-	-	170,539
Total depreciable capital assets	<u>4,516,681</u>	<u>187,650</u>	<u>85,450</u>	<u>4,618,881</u>
<u>Less accumulated depreciation for:</u>				
Buildings	1,841,921	27,511	-	1,869,432
Building improvements	11,602	2,550	-	14,152
Improvements other than buildings	18,666	2,333	-	20,999
Mobile equipment	640,624	37,343	75,645	602,322
Furniture and equipment	125,381	9,441	-	134,822
Total accumulated depreciation	<u>2,638,194</u>	<u>79,178</u>	<u>75,645</u>	<u>2,641,727</u>
Total depreciable capital assets, net	<u>1,878,487</u>	<u>108,472</u>	<u>9,805</u>	<u>1,977,154</u>
Governmental activities capital assets, net	<u>\$ 2,138,189</u>	<u>\$ 108,472</u>	<u>\$ 9,805</u>	<u>\$ 2,236,856</u>

**NORTH TIPPAH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

NOTE 5 - CAPITAL ASSETS (Continued)

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 34,215
Support services	41,964
Non-instructional services	2,999
Total depreciation expense	\$ 79,178

NOTE 6 - LONG-TERM LIABILITIES

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

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Amount Due Within One Year
A. Limited obligation bonds payable	\$ 560,000	\$ -	\$ 160,000	\$ 400,000	\$ 170,000
B. Shortfall notes payable	12,672	-	12,672	-	-
C. Compensated absences payable	92,192	12,736	-	104,928	-
	\$ 664,864	\$ 12,736	\$ 172,672	\$ 504,928	\$ 170,000

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:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital improvement bonds, Series 1998	4.25%	3/1/98	8/1/08	\$ 1,350,000	\$ 400,000

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

Year Ending June 30,	Principal	Interest	Total
2007	\$ 170,000	\$ 13,388	\$ 183,388
2008	180,000	5,950	185,950
2009	50,000	1,063	51,063
	\$ 400,000	\$ 20,401	\$ 420,401

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

**NORTH TIPPAH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

NOTE 6 - LONG-TERM LIABILITIES (Continued)

B. Shortfall Notes Payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Shortfall Note 2002	3.45%	10/10/02	10/10/05	\$ 38,016	\$ -

C. Compensated Absences Payable

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

NOTE 7 - DEFINED BENEFIT PENSION PLAN

Plan Description

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

Funding Policy

PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The current rate is 10.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2006, 2005, and 2004 were \$624,714, \$568,687, and \$467,126, respectively, which equaled the required contributions for each year.

NOTE 8 - RISK MANAGEMENT

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

**NORTH TIPPAAH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

NOTE 8 - RISK MANAGEMENT (Continued)

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.

NOTE 9 - VOCATIONAL SCHOOL CENTER

The school district entered into a Vocational Educational Agreement dated August 24, 1981, creating the North and South Tippah County Vocational-Technical Center. This center was created pursuant to the provisions of Section 37-31-73, Miss. Code Ann. (1972), and was approved by the Mississippi Department of Education. The center includes the North Tippah School District and the South Tippah School District. The name of the center has been changed to the Tippah Career and Technology Center.

Section 37-31-73, Miss. Code Ann. (1972), authorizes the above noted entities to enter into an agreement that would provide for the construction or operation of a regional vocational education center. Any such agreement should provide for a designated fiscal agent, the method of financing the construction and operation of such facilities, the manner in which such facilities are to be controlled and staffed, and detailed procedures for student admission and transportation services for those students.

The South Tippah School District has been designated as the fiscal agent for the Tippah Career and Technology Center, and the operations of the center are included in its financial statements.

NOTE 10 - SUBSEQUENT EVENT

In July 2006, the school board approved a \$497,686 contract for the construction of a multipurpose building. The construction is expected to be completed in December 2006.

REQUIRED SUPPLEMENTARY INFORMATION

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

Schedule 1

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
	Original	Final		Original to Final	Final to Actual
REVENUES:					
Local sources	\$ 1,554,670	\$ 1,541,201	\$ 1,541,201	\$ (13,469)	\$ -
State sources	7,060,495	6,367,654	6,367,654	(692,841)	-
Federal sources	75,265	83,011	83,011	7,746	-
Total Revenues	8,690,430	7,991,866	7,991,866	(698,564)	-
EXPENDITURES:					
Instruction	4,797,402	4,913,526	4,913,526	(116,124)	-
Support services	3,066,307	2,732,313	2,730,828	333,994	1,485
Non-instructional services	170,100	168,826	168,826	1,274	-
Facilities acquisition and construction	508,400	54,900	54,900	453,500	-
Total Expenditures	8,542,209	7,869,565	7,868,080	672,644	1,485
Excess (Deficiency) of Revenues over Expenditures	148,221	122,301	123,786	(25,920)	1,485
OTHER FINANCING SOURCES (USES):					
Insurance loss recoveries	-	64,591	64,591	64,591	-
Sale of transportation equipment	-	2,108	2,108	2,108	-
Operating transfers in	955,001	-	-	(955,001)	-
Operating transfers out	(1,361,889)	(69,925)	(69,925)	1,291,964	-
Total Other Financing Sources (Uses)	(406,888)	(3,226)	(3,226)	403,662	-
NET CHANGE IN FUND BALANCE	(258,667)	119,075	120,560	377,742	1,485
FUND BALANCE:					
July 1, 2005	2,087,500	2,760,160	2,760,160	672,660	-
June 30, 2006	\$ 1,828,833	\$ 2,879,235	\$ 2,880,720	\$ 1,050,402	\$ 1,485

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

NORTH TIPPDAH SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE FOR THE EXTENDED SCHOOL YEAR FUND
 FOR THE YEAR ENDED JUNE 30, 2006

Schedule 2

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
	Original	Final		Original to Final	Final to Actual
REVENUES:					
State sources	\$ -	\$ 21,144	\$ 21,144	\$ 21,144	\$ -
Total Revenues	-	21,144	21,144	21,144	-
EXPENDITURES:					
Instruction	530	21,144	21,144	(20,614)	-
Support services	500	-	-	500	-
Total Expenditures	1,030	21,144	21,144	(20,114)	-
NET CHANGE IN FUND BALANCE	(1,030)	-	-	1,030	-
FUND BALANCE:					
July 1, 2005	-	-	-	-	-
June 30, 2006	\$ (1,030)	\$ -	\$ -	\$ 1,030	\$ -

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

NORTH TIPPAAH SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE SPECIAL EDUCATION FUND
FOR THE YEAR ENDED JUNE 30, 2006

Schedule 3

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
REVENUES:					
Federal sources	\$ 441,154	\$ 327,085	\$ 327,085	\$ (114,069)	\$ -
Total Revenues	441,154	327,085	327,085	(114,069)	-
EXPENDITURES:					
Instruction	231,271	193,905	193,905	37,366	-
Support services	209,883	133,180	133,180	76,703	-
Total Expenditures	441,154	327,085	327,085	114,069	-
NET CHANGE IN FUND BALANCE	-	-	-	-	-
FUND BALANCE:					
July 1, 2005	-	-	-	-	-
June 30, 2006	\$ -	\$ -	\$ -	\$ -	\$ -

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

**NORTH TIPPAH SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2006**

NOTE 1 - BUDGETARY COMPARISON SCHEDULES

1. Basis of Presentation

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

2. Budget Amendments and Revisions

The budget is adopted by the school board and is 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 schedule is presented for the general fund and each major special revenue fund consistent with accounting principles generally accepted in the United States of America.

SUPPLEMENTAL INFORMATION

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

Federal Grantor/ Pass-through Grantor Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Non-Cash Assistance:		
Food donation	10.550	\$ 37,246
Child Nutrition Cluster:		
School breakfast program	10.553	125,656
National school lunch program	10.555	313,663
Total Child Nutrition Cluster		439,319
Total U.S. Department of Agriculture		476,565
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the Universal Service Fund	32.XXX	35,121
Total Federal Communications Commission		35,121
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Rehabilitation Services:		
Rehabilitation services - vocational rehabilitation grants to states	84.126	130
Total		130
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	230,204
Vocational education - basic grants to states	84.048	14,641
Safe and drug-free schools and communities - state grants	84.186	6,053
Eisenhower professional development state grants	84.281	7,016
State grants for innovative programs	84.298	4,092
Comprehensive school reform demonstration	84.332	9,155
Improving teacher quality - state grants	84.367	93,589
Total		364,750
Special education cluster:		
Special education - grants to states	84.027	333,263
Special education - preschool grants	84.173	24,812
Total		358,075
Total passed-through Mississippi Department of Education		722,825
Total U.S. Department of Education		722,955
Total for All Federal Awards		\$ 1,234,641

NOTES TO SCHEDULE

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

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

	Instruction and Other Student				
	Total	Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 7,569,150	\$ 5,840,159	\$ 286,520	\$ 644,170	\$ 798,301
Other	<u>2,364,815</u>	<u>537,572</u>	<u>81,207</u>	<u>45,015</u>	<u>1,701,021</u>
Total	<u>\$ 9,933,965</u>	<u>\$ 6,377,731</u>	<u>\$ 367,727</u>	<u>\$ 689,185</u>	<u>\$ 2,499,322</u>
Total number of students	<u>1,349</u>				
Cost per student	<u>\$ 7,364</u>	<u>\$ 4,728</u>	<u>\$ 273</u>	<u>\$ 511</u>	<u>\$ 1,853</u>

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

Instruction and Other Student Instructional Expenditures - includes the activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teachers aides or classroom assistants of any type (all the 1000, 2100, & 2200 functional codes).

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

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

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

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

Eaton, Babb & Smith

A Professional Association
Certified Public Accountants/Financial Consultants

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

Superintendent and School Board
North Tippah School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the North Tippah School District as of and for the year ended June 30, 2006, which collectively comprise the school district's basic financial statements, and have issued our report thereon dated November 6, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the school district's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Eaton, Cobb + Smith

Ripley, Mississippi
November 6, 2006

Eaton, Babb & Smith

A Professional Association
Certified Public Accountants/Financial Consultants

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

Superintendent and School Board
North Tippah School District

Compliance

We have audited the compliance of the North Tippah School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The school district's major federal programs are identified in the summary of auditors' results section of the Schedule of 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 of the school district's compliance with those requirements.

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Eaton, Cobb & Smith

Ripley, Mississippi
November 6, 2006

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

Eaton, Babb & Smith

A Professional Association
Certified Public Accountants/Financial Consultants

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Superintendent and School Board
North Tippah School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the North Tippah School District as of and for the year ended June 30, 2006, which collectively comprise North Tippah School District's basic financial statements and have issued our report thereon dated November 6, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Mississippi Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$11,048 of classroom supply funds carried over from previous years.

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements did not disclose any instances of noncompliance with other state laws and regulations.

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

Eaton, Babb & Smith

Ripley, Mississippi
November 6, 2006

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**NORTH TIPPAH SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

Section 1: Summary of Auditors' Results

FINANCIAL STATEMENTS:

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

FEDERAL AWARDS:

- | | |
|--|--------------------|
| 4. Type of auditors' report issued on compliance for major federal programs: | <u>Unqualified</u> |
| 5. Internal control over major federal programs: | |
| a. Material weakness identified? | <u>No</u> |
| b. Reportable condition identified that is not considered to be a material weakness? | <u>No</u> |
| 6. Any audit finding reported as required by Section __.510(a) of Circular A-133? | <u>No</u> |
| 7. Federal program identified as a major program: | |
| a. <u>Special Education Cluster</u> | |
| CFDA# 84.027 | |
| CFDA# 84.173 | |
| 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> |

**NORTH TIPPAH SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2006**

10. Prior fiscal year audit findings and questioned costs relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section __.315(b) of OMB Circular A-133? Yes

Section 2: Financial Statement Findings

The results of our tests disclosed no 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 no findings and questioned costs related to the federal awards.

SUMMARY OF PRIOR AUDIT FINDINGS

NORTH TIPP AH SCHOOL DISTRICT

MARILYN COLYER
REFERRAL TO PLACEMENT CORD

JUNIOR WOOTEN, SUPERINTENDENT

MARTHA TOMLINSON
TRANSPORTATION DIR.

JOHN HARTSFIELD
FEDERAL PROGRAMS COORD.

P. O. BOX 65
TIPLERSVILLE, MS 38674
TELEPHONE: 662-223-4384
FAX: 662-223-5379

GERALD PARVIN
PSYCHOMETRIST

DEBRA KENNEDY
SCHOOL BUSINESS OFFICER

DARLENE COX
FOOD SERVICE ADM.

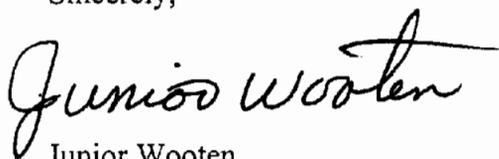
November 6, 2006

As required by Section __.315(b) of OMB Circular A-133, the North Tippah School District has prepared and hereby submits the following summary of prior audit findings as of June 30, 2006:

Fiscal Year Ended June 30, 2005 and 2004 Audit Reports

<u>Finding</u>	<u>Status</u>
04-1	Corrected
05-1	Corrected

Sincerely,



Junior Wooten
Superintendent