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PERRY COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS

JUNE 30, 2006

King CPA, PLLC

PERRY COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS

JUNE 30, 2006

PERRY COUNTY SCHOOL DISTRICT
NEW AUGUSTA, MISSISSIPPI

BOARD OF TRUSTEES

Elaine Hartfield
Fredrick Jackson
Lavelle Parker
Terry Shoemake
Cecilia Weathersby

SUPERINTENDENT

Scott Dearman, Ed. D.

Business Manager

Evelyn Garner

PERRY COUNTY SCHOOL DISTRICT

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Mississippi Society of
Certified Public Accountants

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

November 17, 2006

Superintendent and School Board
Perry County School District

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

In accordance with Government Auditing Standards, we have also issued our report dated November 17, 2006 on our consideration of the Perry County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 7 through 16 and the Budgetary Comparison Schedule and corresponding notes on page 44 through 45 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 performed for the purpose of forming opinions on the financial statements that collectively comprise the Perry County School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis, as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. In addition, the Schedule of Instructional, Administrative and Other Expenditures – Governmental Funds is presented for 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.

King CPA, PLLC

KING CPA, PLLC

Petal, Mississippi

November 17, 2006

PERRY COUNTY SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION
AND ANALYSIS
(MD&A)**

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

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

FINANCIAL HIGHLIGHTS

- Total net assets, including the effect of prior period adjustments, increased \$758,333, which represents a 19% increase from fiscal year 2005. This increase in net assets is due primarily to the increase in capital assets during the fiscal year resulting from the completed construction of the Runnelstown Jr. High Building.
- General revenues account for \$9,141,381 in revenue, or 72% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$3,639,898, or 28% of total revenues.
- The District had \$12,018,793 in expenses; only \$3,639,898 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$9,141,381 were adequate to provide for these programs.
- Among major funds, the General Fund had \$8,431,899 in revenues and \$7,748,399 in expenditures. After net other financing uses of \$1,436,933, the net change in fund balance of the General Fund was a decrease of \$753,433. The decrease is primarily a result of the transfer of funds from the General Fund to the Runnelstown Building Project Fund to be used for the construction of the new Jr. High building.
- Capital assets, net of accumulated depreciation, increased by \$831,231 due primarily to the completed construction of the Runnelstown Jr. High Building during the fiscal year.
- Long-term debt decreased by \$215,158 due to principal payments made during the fiscal year on existing long-term debt and the decrease in the liability for compensated absences.

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 are comprised of three

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

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 and other expenses on long-term liabilities.

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

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

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.

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.

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.

Notes to the financial statements. The notes provide additional information that is essential to have a full understanding of the data provided in the government-wide and fund financial statements.

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.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and is provided in 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 \$4,829,070 as of June 30, 2006.

The district's net assets are comprised of 1) net assets invested in capital assets, net of related debt, 2) restricted net assets and 3) unrestricted net assets. \$2,460,500 of the District's net assets

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

reflects its investment in capital assets (e.g., land, buildings, building improvements, mobile equipment and furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. \$2,590,518 of the District's net assets reflects its restricted net assets. A portion of the restricted net assets is expendable for school-based activities, debt service, capital improvements, forestry improvements and unemployment benefits. The remaining portion of the restricted net assets is nonexpendable for 16th section investment purposes. The unrestricted portion of the District's net assets are in the negative due primarily to the advance from the 16th Section Principal Fund to the General Fund in the amount of \$1,200,000 made during the fiscal year. The advance is reported as a liability at year-end in the General Fund, causing the fund balance to be negative.

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

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

	Net Assets		Percentage Change
	June 30, 2006	June 30, 2005	
Current assets	\$ 2,543,822	\$ 2,163,377	17.6%
Other assets	228,919	1,120,285	-79.6%
Capital assets, net	5,409,500	4,578,269	18.2%
Total assets	8,182,241	7,861,931	4.0%
Current Liabilities	336,359	559,224	-39.9%
Long-term debt outstanding	3,016,812	3,231,970	-6.7%
Total liabilities	3,353,171	3,791,194	-11.6%
Net assets:			
Invested in capital assets net of related debt	2,460,500	1,418,269	73.5%
Restricted	2,590,518	1,856,141	39.6%
Unrestricted	(221,948)	796,327	-127.9%
Total net assets	\$ 4,829,070	\$ 4,070,737	18.6%

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

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

- Current assets increased from the previous fiscal year due primarily to an increase in cash and cash equivalents. The increase in cash and cash equivalents is primarily a result of federal sources and insurance loss recoveries received during the fiscal year for disaster relief as a result of Hurricane Katrina. A portion of the funds received remained unspent at the end of the fiscal year and was included in cash and cash equivalents.
- Other assets decreased from the previous fiscal year due primarily to a decrease in cash and cash equivalents in the 16th Section Principal Fund resulting from an advance to the General Fund in the amount of \$1,200,000 during the fiscal year. Cash and cash equivalents in the 16th Section Principal Fund is included in the Restricted Assets (other assets) in the Statement of Net Assets
- Capital assets increased from the previous fiscal year due primarily to the completed construction of the Runnelstown Jr. High Building.
- Current liabilities decreased from the previous fiscal year due primarily to a decrease in amounts due to other governments.
- Long-term debt outstanding decreased from the previous fiscal year due primarily to principal payments made during the fiscal year on existing long-term debt.
- Net assets invested in capital assets, net of related debt, increased from the previous fiscal year due primarily to the completed construction of the Runnelstown Jr. High Building.
- Restricted net assets increased from the previous fiscal year due primarily to an increase in amounts expendable for school-based activities, resulting primarily from an increase in fund balance of the 16th Section Interest Fund and Disaster Relief Funds.
- Unrestricted net assets decreased from the previous fiscal year due primarily to the decrease in fund balance in the General Fund. During the fiscal year, the General Fund received an advance of \$1,200,000 from the 16th Section Principal Fund. This advance is reported as a liability in the General Fund at year-end, resulting in a decrease in fund balance.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2006 were \$12,781,279. The total cost of all programs and services was \$12,018,793. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2006 and comparative data for the fiscal year ended June 30, 2005.

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

	Net Assets		Percentage Change
	June 30, 2006	June 30, 2005	
Revenues:			
Program revenues:			
Charges for services	\$ 445,798	\$ 403,497	10.5%
Operating grants and contributions	3,194,100	3,237,982	-1.4%
General revenues:			
Property taxes	2,167,093	1,982,919	9.3%
Grants and contributions not restricted	6,177,980	6,079,375	1.6%
Other	796,308	338,256	135.4%
Total revenues	<u>12,781,279</u>	<u>12,042,029</u>	6.1%
Expenses:			
Instruction	7,344,470	7,031,055	4.5%
Support services	3,854,670	3,822,359	0.8%
Non-instructional	695,757	707,618	-1.7%
Sixteenth section	-	644	-100.0%
Interest on other expenses on long-term liabilities	123,896	135,840	-8.8%
Total expenses	<u>12,018,793</u>	<u>11,697,516</u>	2.7%
Increase (Decrease) in net assets	<u>762,486</u>	<u>344,513</u>	121.3%
Net Assets, July 1	4,070,737	3,768,892	8.0%
Prior Period Adjustments	(4,153)	(42,668)	
Net Assets, July 1 as restated	<u>4,066,584</u>	<u>3,726,224</u>	
Net Assets, June 30	<u>\$ 4,829,070</u>	<u>\$ 4,070,737</u>	18.6%

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

- Revenue from charges for services increased from the previous fiscal year due primarily to an increase in activity fund receipts.
- Property tax increased from the previous fiscal year due to an increase in the millage rate.
- Other revenue increased from the previous fiscal year due primarily to insurance loss recoveries received during the fiscal year resulting from Hurricane Katrina.

Governmental activities. The following table presents, for the fiscal year ended June 30, 2006 and comparative data for the fiscal year ended June 30, 2005, 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

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

(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	\$ 7,344,470	\$ (4,997,506)	\$ 7,031,055	\$ (4,668,714)
Support services	3,854,670	(3,283,589)	3,822,359	(3,276,707)
Non-instructional	695,757	(11,497)	707,618	(1,896)
Sixteenth section	0	37,593	644	27,120
Interest and other expenses on long-term liabilities	123,896	(123,896)	135,840	(135,840)
Total expenses	\$ 12,018,793	\$ (8,378,895)	\$ 11,697,516	\$ (8,056,037)

- The net cost of governmental activities for fiscal year 2006 in the amount of \$8,378,895 was financed by general revenue, which is made up of primarily property taxes of \$2,167,093 and state revenue of \$5,648,949.
- Investment earnings accounted for \$86,170 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 fiscal year June 30, 2006, its governmental funds reported a combined fund balance of \$2,476,185. The net change in fund balance for the fiscal year was a decrease of \$291,197 due primarily to facilities acquisition and construction expenditures incurred during the fiscal year for the construction of the Runnelstown Jr. High Building. A portion of the fund balance is reported by fund type in the unreserved, undesignated section of the Governmental Funds Balance Sheet. Included in the unreserved, undesignated section of the balance sheet is a negative fund balance reported in the General Fund in the amount of \$154,136, which is primarily a result of an advance in the amount of \$1,200,000 from the 16th Section Principal Fund during the fiscal year. The advance is reported as a liability in the General Fund at year-end resulting in a negative fund balance in the General Fund. The portion of the fund balance reported in the Special Revenue Funds will be used for school-based activities. The portion of

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

the fund balance reported in the Capital Project Funds is a result of transfers from the General Fund and will be used for capital improvements. The remaining fund balance is reported in the reserved, or designated, section of the governmental funds balance sheet to indicate that it is not available for spending because it has already been committed. This portion of the fund balance is reserved for advances, inventory, unemployment benefits, forestry improvements, debt service purposes and permanent fund purposes.

The General Fund is the principal operating fund of the District. The net change in fund balance for the General Fund for the fiscal year was a decrease of \$753,433 due primarily to the transfer of funds to the Runnelstown Building Project Fund for the construction of the new Runnelstown Jr. High Building. The net change in fund balance for the 16th Section Principal Fund for the fiscal year was a decrease of \$44,446 due primarily to the transfer of funds to the 16th Section Interest Fund. The net change in fund balance for the Other Governmental Funds for the fiscal year was an increase of \$506,682 due primarily to the transfer of funds from the General Fund to the Runnelstown Building Project Fund for the construction of the new Jr. High Building.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget. Significant budget revisions during the fiscal year are as follows:

- Budgeted amounts for revenue from local sources in the General Fund were increased to reflect the increase in ad valorem receipts during the fiscal year.
- Budgeted amounts for revenue from state sources in the General Fund were increased to reflect the increase in Mississippi Adequate Education Program funds received during the fiscal year.
- Budgeted amounts for proceeds of loans in the General Fund were decreased to zero. The original budget included the advance of \$1,200,000 as proceeds of loans instead of a liability.
- Budgeted amounts for transfers in the General Fund were increased to more accurately reflect actual transfers made during the year.

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

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2006, the District's total capital assets, before depreciation, were \$8,529,317, including land, buildings, building improvements, mobile equipment and furniture and equipment. This amount represents a gross increase of \$1,094,751 from the previous year. This increase is primarily a result of the completed construction of the Runnelstown Jr. High Building during the fiscal year. Total depreciation expense for the year was \$274,081. Total accumulated depreciation as of June 30, 2006 was \$3,119,817, resulting in total net assets of \$5,409,500.

	Capital Assets, Net of Depreciation		Percentage
	2006	2005	Change
Land	\$ 58,108	\$ 58,108	0.0%
Construction in progress	-	168,253	-100.0%
Buildings	4,481,499	3,426,447	30.8%
Building improvements	308,077	321,652	-4.2%
Mobile equipment	459,764	435,896	5.5%
Furniture and equipment	102,052	167,913	-39.2%
Total	\$ 5,409,500	\$ 4,578,269	18.2%

Debt Administration. At June 30, 2006, the District had \$3,016,812 in general and limited obligation bonds and other long-term debt outstanding, of which \$224,712 is due within one year. During the fiscal year, the District made principal payments totaling \$211,000 on existing long-term debt.

	Outstanding Debt		Percentage
	2006	2005	Change
General obligation bonds payable	\$ 384,000	\$ 425,000	-9.6%
Limited obligation bonds payable	1,990,000	2,105,000	-5.5%
Three mill notes payable	275,000	330,000	-16.7%
Qualified zone academy bonds payable	300,000	300,000	0.0%
Compensated absences payable	67,812	71,970	-5.8%
Total	\$ 3,016,812	\$ 3,231,970	-6.7%

CURRENT ISSUES

The Perry County 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. The millage rate has increased from 34.60 mills in fiscal year 2005 to 38.19 mills in fiscal year 2006. In addition, the

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

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 has not increased or decreased significantly from the previous fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Perry County School District, P. O. Box 137, New Augusta, MS 39462.

PERRY COUNTY SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS

PERRY COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

EXHIBIT A

ASSETS	
Cash and cash equivalents	\$ 1,708,397
Investments	355,674
Due from other governments	462,582
Inventories	17,169
Restricted assets	228,919
Capital assets, not being depreciated	
Land	58,108
Capital assets, net of accumulated depreciation	
Buildings	4,481,499
Building improvements	308,077
Mobile equipment	459,764
Furniture and equipment	<u>102,052</u>
Total Assets	<u>\$ 8,182,241</u>
LIABILITIES	
Accounts payable and accrued liabilities	\$ 296,556
Interest payable on long-term debt	39,803
Long-term liabilities (due within one year)	
Capital-related liabilities	222,000
Non-capital related liabilities	2,712
Long-term liabilities (due beyond one year)	
Capital-related liabilities	2,727,000
Non-capital related liabilities	<u>65,100</u>
Total Liabilities	<u>3,353,171</u>
NET ASSETS	
Invested in capital assets, net of related debt	2,460,500
Restricted net assets	
Expendable:	
School-based activities	801,226
Debt service	311,845
Capital improvements	90,453
Forestry improvements	84,341
Unemployment benefits	31,342
Non-expendable:	
Sixteenth section	1,271,311
Unrestricted	<u>(221,948)</u>
Total Net Assets	<u>4,829,070</u>
Total Liabilities and Net Assets	<u>\$ 8,182,241</u>

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

PERRY COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

EXHIBIT B

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Total</u>	Net (Expense) Revenue and Changes in Net Assets
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>		
Primary Government:						
Governmental Activities:						
Instruction	\$ 7,344,470	\$ 261,800	\$ 2,085,164	\$ -	\$ (4,997,506)	
Support services	3,854,670	-	571,081	-	(3,283,589)	
Non-instructional services	695,757	146,405	537,855	-	(11,497)	
Sixteenth section	-	37,593	-	-	37,593	
Interest and other charges related to long-term liabilities	123,896	-	-	-	(123,896)	
Total Governmental Activities	\$ 12,018,793	\$ 445,798	\$ 3,194,100	\$ -	\$ (8,378,895)	
General Revenues:						
Taxes:						
Property taxes - General purpose					2,053,478	
Property taxes - Debt purpose					113,615	
Unrestricted grants and contributions:						
State					5,648,949	
Federal					529,031	
Unrestricted investment earnings					86,170	
Sixteenth section sources					273,888	
Other					436,250	
Total General Revenues					9,141,381	
Change in Net Assets					762,486	
Net Assets - Beginning					4,070,737	
Prior period adjustments					(4,153)	
Net Assets - Restated					4,066,584	
Net Assets - Ending					\$ 4,829,070	

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

PERRY COUNTY SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2006

EXHIBIT C

	Major Funds			Total Governmental Funds
	General Fund	Sixteenth Section Principal Fund	Other Governmental Funds	
ASSETS				
Cash and cash equivalents	\$ 386,734	\$ 27,601	\$ 1,321,663	\$ 1,735,998
Cash with fiscal agent	-	-	275	275
Investments	355,674	1,931	199,112	556,717
Due from other governments	109,739	-	347,569	457,308
Due from other funds	258,688	-	-	258,688
Advances to other funds	-	1,264,971	-	1,264,971
Inventories	-	-	17,169	17,169
Total Assets	<u>\$ 1,110,835</u>	<u>\$ 1,294,503</u>	<u>\$ 1,885,788</u>	<u>\$ 4,291,126</u>
LIABILITIES & FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 296,556	\$ 296,556
Due to other funds	-	23,192	230,222	253,414
Advances from other funds	1,264,971	-	-	1,264,971
Total Liabilities	<u>1,264,971</u>	<u>23,192</u>	<u>526,778</u>	<u>1,814,941</u>
Fund balances:				
Reserved for:				
Advances	-	1,264,971	-	1,264,971
Inventory	-	-	17,169	17,169
Unemployment benefits	-	-	31,342	31,342
Forestry improvement	-	-	84,341	84,341
Debt service purposes	-	-	351,648	351,648
Permanent fund purposes	-	6,340	-	6,340
Unreserved, undesignated, reported in:				
General fund	(154,136)	-	-	(154,136)
Special revenue funds	-	-	784,057	784,057
Capital project funds	-	-	90,453	90,453
Total Fund Balances	<u>(154,136)</u>	<u>1,271,311</u>	<u>1,359,010</u>	<u>2,476,185</u>
Total Liabilities & Fund Balances	<u>\$ 1,110,835</u>	<u>\$ 1,294,503</u>	<u>\$ 1,885,788</u>	<u>\$ 4,291,126</u>

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

PERRY COUNTY SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

EXHIBIT C-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 2,476,185
Amounts reported for governmental activities in the statement of net assets (Exhibit A) are different because:	
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	
Capital Assets	8,529,317
Less Accumulated Depreciation	<u>(3,119,817)</u>
	5,409,500
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Long-term liabilities	(3,016,812)
Accrued interest on debt	<u>(39,803)</u>
	(3,056,615)
Total Net Assets	<u>\$ 4,829,070</u>

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

PERRY COUNTY SCHOOL DISTRICT

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

EXHIBIT D

	<u>Major Funds</u>			<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Sixteenth Section Principal Fund</u>	<u>Other Governmental Funds</u>	
REVENUES				
Local sources	\$ 2,377,128	\$ -	\$ 293,586	\$ 2,670,714
State sources	5,514,755	-	623,107	6,137,862
Federal sources	540,016	-	2,694,202	3,234,218
Sixteenth section sources	-	20,117	318,368	338,485
Total Revenues	8,431,899	20,117	3,929,263	12,381,279
EXPENDITURES				
Instruction	4,933,536	-	2,289,442	7,222,978
Support services	2,811,810	-	998,238	3,810,048
Non-instructional services	-	-	699,530	699,530
Facilities acquisition and construction	-	-	1,001,864	1,001,864
Debt Service:				
Principal	-	-	211,000	211,000
Interest	3,053	-	122,924	125,977
Other	-	-	1,079	1,079
Total Expenditures	7,748,399	-	5,324,077	13,072,476
Excess (Deficiency) of Revenues over (under) Expenditures	683,500	20,117	(1,394,814)	(691,197)
OTHER FINANCING SOURCES (USES)				
Insurance loss recoveries	-	-	400,000	400,000
Transfers in	999,834	-	1,749,560	2,749,394
Payments to escrow agents	-	-	33,000	33,000
Transfers out	(2,436,767)	(64,563)	(248,064)	(2,749,394)
Payment to QZAB debt escrow agent	-	-	(33,000)	(33,000)
Total Other Financing Sources (Uses)	(1,436,933)	(64,563)	1,901,496	400,000
Net change in fund balances	(753,433)	(44,446)	506,682	(291,197)
Fund Balances---July 1, 2005	868,297	1,046,757	852,347	2,767,401
Prior period ad. & reclassifications	(269,000)	269,000	(4,153)	(4,153)
Fund Balances---As restated July 1, 2005	599,297	1,315,757	848,194	2,763,248
Increase in reserve for inventory	-	-	4,134	4,134
Fund Balances---June 30, 2006	\$ (154,136)	\$ 1,271,311	\$ 1,359,010	\$ 2,476,185

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

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

EXHIBIT D-1

	<u>Amount</u>
Net Change in Fund Balances	\$ (291,197)
Amounts reported for governmental activities in the statement of activities (Exhibit B) are different because:	
Capital outlays are reported as expenditures in governmental funds but are not reported as expenses in the statement of activities. Instead, costs associated with capital assets are capitalized in the statement of net assets.	1,107,750
Depreciation is not an expenditure in governmental funds but is an expense of allocating the cost of capital assets over their estimated useful lives in the statement of activities.	(274,081)
In the statement of activities, only gains and losses from the sale of capital assets are reported, whereas in governmental funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by a combination of the following items:	
Losses on the sale of capital assets	(2,438)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets	211,000
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the statement of activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net assets differs from the change in fund balances by a combination of the following items:	
Compensated absences decreases	4,158
Accrued interest on debt decreases	3,160
An increase (+)/decrease (-) in the reserve for inventory is reported as a direct increase/decrease to the fund balance in the governmental funds but is a decrease/increase in noninstructional service expenses in the statement of activities.	<u>4,134</u>
Change in Net Assets of Governmental Activities	<u>\$ 762,486</u>

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

PERRY COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2006

EXHIBIT E

	Agency Funds
ASSETS	
Cash and cash equivalents	\$ 531,655
Total Assets	<u>\$ 531,655</u>
LIABILITIES	
Accounts payable and accrued liabilities	\$ 498,849
Due to other funds	5,274
Due to student clubs	27,532
Total Liabilities	<u>\$ 531,655</u>

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

PERRY COUNTY SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

**PERRY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(1) Summary of Significant Accounting Policies.

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

A. Financial Reporting Entity.

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

**PERRY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

C. Measurement Focus and Basis of Accounting.

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

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

The school district reports the following major governmental funds:

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

16th Section Principal Fund - This fund is used to account for non-expendable sixteenth section revenues for which the financing sources are earnings on investments and the sale of nonrenewable resources. Only the earnings on investments may be transferred to the district's General Fund for operational purposes.

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

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

**PERRY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

FIDUCIARY FUNDS

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

D. Account Classifications.

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

E. Encumbrances.

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

F. Cash and Cash Equivalents.

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

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

G. Investments.

The school district can invest 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 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.

**PERRY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

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 6 for details.

K. Interfund Transactions and Balances.

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

Short-term (due within one year) interfund loan receivables are reported as "due from other funds" and are considered available expendable resources. Noncurrent portions of long-term interfund loan receivables are reported as advances and are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and, therefore, are not available for appropriation.

**PERRY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

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

Fund Financial Statements:

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

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 advances - An account used to offset advances recorded in the asset accounts since they do not constitute available spendable resources and are not a component of net current assets.

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

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

Reserved for forestry improvements - An account that represents the fund balance that legally restricted for improving sixteenth section forestlands.

Reserved for debt service purposes - An account that represents a 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

**PERRY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

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

M. Property Taxes.

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

N. Mississippi Adequate Education Program Revenues.

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

O. Compensated Absences.

Employees of the school district accumulate sick leave at a minimum amount as required by state law or at a greater amount provided by school district policy. Some employees are allowed personal leave and/or vacation 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 only the compensated absence liability payable from expendable available financial resources only if the payable has matured, for example, an employee retires..

(2) Changes in Accounting Standards

As required, the Perry County 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.

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 statutes as follows: Deposits. The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann (1972). The collateral pledged for the school district's deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by

**PERRY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$1,735,998 and \$531,655, respectively. The carrying amount of deposits are reported in the government-wide financial statements as cash and cash equivalents of \$1,708,397 and \$27,601 of the restricted assets. Also included in the restricted assets is the cash with fiscal agent balance of \$275 in the QZAB fund and the investment balance totaling \$201,043 in the sixteenth section principal fund, QZAB fund and MAEP fund. The Restricted Assets are legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$2,266,157.

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 institutions 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 \$2,266,157 was exposed to custodial credit risk.

Cash with Fiscal Agents.

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$275.

Investments.

As of June 30, 2006, the district had the following investments:

Investment Type	Maturities	Fair Value	Rating
GNMA Bond		\$ 713	
GNMA II Bond		1,218	
Fed Home Loan MTG Corp	less than 1 year	128,607	
Horizon Treasury MMKT Class A	less than 1 year	70,505	
Certificates of Deposit	1 to 5 years	<u>355,674</u>	
		<u>\$ 556,717</u>	

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

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

Custodial Credit Risk – Investments. Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk. The district's investment in GNMA bonds is a credit risk because the securities are uninsured, unregistered and held by the district's agent in the district's name.

**PERRY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(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	\$258,688	
16th Section Principal Fund		23,192
Other governmental funds		230,222
Fiduciary Funds		5,274
Total	<u>\$258,688</u>	<u>\$258,688</u>

The balances between funds result mainly from the time lag between the date the expenditures are incurred and the date the reimbursement is received from the funding source. The general fund finances these expenditures until the funds are reimbursed.

B. Advances To/From Other Funds:

	<u>Advances To</u>	<u>Advances From</u>
Major Funds:		
General Fund	\$	1,264,971
16 th Section Principal Fund	1,264,971	
Total	<u>\$ 1,264,971</u>	<u>1,264,971</u>

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

**PERRY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

Sixteenth section principal loans payable.

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

Year Ending June 30	Principal	Interest	Total
2007	\$ 51,151	50,392	101,543
2008	53,183	48,360	101,543
2009	55,287	46,255	101,542
2010	57,469	44,074	101,543
2011	59,729	41,814	101,543
2012-2016	271,976	176,137	448,113
2017-2021	323,089	118,401	441,490
2022-2026	393,087	48,403	441,490
Total	\$ 1,264,971	573,836	1,838,807

D. Transfers In/Out.

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Funds:		
General Fund	\$ 999,834	2,436,767
16 th Section Principal Fund		64,563
Other Governmental Funds	1,749,560	248,064
Total	\$ 2,749,394	2,749,394

Transfers are used primarily to move unrestricted general fund monies to finance various programs and projects accounted for in other funds.

**PERRY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(5) Capital Assets.

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

	Balance 7/1/2005	Additions	Retirements	Completed Construction	Adjustments	Balance 6/30/2006
<u>Non-depreciable capital assets:</u>						
Land	\$ 58,108					\$ 58,108
Construction in progress	168,253	1,001,864		(1,170,117)		-
Total non-depreciable capital assets	<u>\$ 226,361</u>	<u>\$ 1,001,864</u>	<u>\$ -</u>	<u>\$ (1,170,117)</u>	<u>\$ -</u>	<u>\$ 58,108</u>
<u>Depreciable capital assets:</u>						
Buildings	\$ 5,204,166			\$ 1,170,117		\$ 6,374,283
Building improvements	339,372			-		339,372
Mobile equipment	1,320,669	92,427				1,413,096
Furniture and equipment	343,998	13,459	12,999			344,458
Total depreciable capital assets	<u>\$ 7,208,205</u>	<u>\$ 105,886</u>	<u>\$ 12,999</u>	<u>\$ 1,170,117</u>	<u>\$ -</u>	<u>\$ 8,471,209</u>
<u>Less accumulated depreciation:</u>						
Buildings	\$ 1,777,719	\$ 115,065				\$ 1,892,784
Building improvements	17,720	13,575				31,295
Mobile equipment	884,773	68,559				953,332
Furniture and equipment	176,085	78,882	10,561			242,406
Total accumulated depreciation	<u>\$ 2,856,297</u>	<u>\$ 274,081</u>	<u>\$ 10,561</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,119,817</u>
Total depreciable capital assets, net	<u>\$ 4,351,908</u>	<u>\$ (168,195)</u>	<u>\$ 2,438</u>	<u>\$ 1,170,117</u>	<u>\$ -</u>	<u>\$ 5,351,392</u>
Governmental activities capital assets, net	<u>\$ 4,578,269</u>	<u>\$ 833,689</u>	<u>\$ 2,438</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,409,500</u>

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 131,190
Support services	135,650
Non-instructional	7,241
Total depreciation expense	<u>\$ 274,081</u>

**PERRY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

The capital assets above include significant amounts of land 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.

(6) Long-term liabilities.

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

	Balance 7/1/2005	Additions	Retirements	Balance 6/30/2006	Amount due within one year
General obligation bonds payable	\$ 425,000	\$ -	\$ 41,000	\$ 384,000	\$ 42,000
Limited obligation bonds payable	2,105,000	-	115,000	1,990,000	120,000
Three mill notes payable	330,000	-	55,000	275,000	60,000
Qualified zone academy bonds payable	300,000	-	-	300,000	-
Compensated absences payable	71,970	-	4,158	67,812	2,712
Total long-term debt	\$ 3,231,970	\$ -	\$ 215,158	\$ 3,016,812	\$ 224,712

A. General obligation bonds payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General obligation refunding bonds, Series 2004	3.17%	06-01-04	12-01-13	\$ 464,000	384,000
Total				\$ 464,000	384,000

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

Year Ending	Principal	Interest	Total
June 30			
2007	42,000	11,507	53,507
2008	43,000	10,160	53,160
2009	46,000	8,749	54,749
2010	47,000	7,275	54,275
2011	49,000	5,753	54,753
2012 - 2014	157,000	7,529	164,529
Total	\$ 384,000	50,973	434,973

**PERRY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

The amount of bonded indebtedness that can be incurred by the school district is limited by state statute. Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in state statutes, have been met. As of June 30, 2006, the amount of outstanding bonded indebtedness was equal to 1% of property assessments as of October 1, 2005. This debt will be retired from the EEF Building and Buses Fund (2410).

B. Limited obligation bonds payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital improvement bonds, Series 1998	Varies	03-01-1998	02-01-2018	2,475,000	1,990,000
Total				<u>\$ 2,475,000</u>	<u>1,990,000</u>

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

Year Ending	Principal	Interest	Total
June 30			
2007	\$ 120,000	89,124	209,124
2008	125,000	82,969	207,969
2009	130,000	77,375	207,375
2010	140,000	71,365	211,365
2011	145,000	64,880	209,880
2012-2016	835,000	214,038	1,049,038
2017-2018	495,000	27,320	522,320
Total	<u>\$ 1,990,000</u>	<u>627,071</u>	<u>2,617,071</u>

The state aid capital improvement bonds are secured by an irrevocable pledge of certain revenues the district receives from the state of Mississippi pursuant to the Mississippi Accountability and Adequate Education Program Act, Sections 37-151-1 through 37-151-7, Miss. Code Ann. (1972). The state aid capital improvement bonds are not included in the computation of the debt limit percentage. This debt will be retired from the MAEP Retirement Fund (4041).

**PERRY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

C. Three mill notes payable.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Three mill note, Series 2002	4.60%	06-15-02	06-15-10	\$ 500,000	275,000
Total				\$ 500,000	275,000

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

Year Ending June 30	Principal	Interest	Total
2007	\$ 60,000	12,650	72,650
2008	65,000	9,890	74,980
2009	70,000	6,900	76,900
2010	80,000	3,680	83,680
Total	\$ 275,000	33,120	308,210

This debt will be retired from the Three Mill Debt Service Fund (4022).

D. Qualified zone academy bonds payable.

As more fully explained in Note 14, debt has been issued by the school district that qualifies as Qualified Zone Academy bonds. Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
QZAB Note	N/A	06-01-2001	05-15-2011	\$ 300,000	300,000
Total				\$ 300,000	300,000

**PERRY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

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

(7) Defined Benefit Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The current rate is 10.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2006, 2005 and 2004 were \$627,385, \$577,843 and \$526,662, respectively, which equaled the required contributions for each year.

(8) Sixteenth Section Lands.

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

Year Ending June 30	Amount
2007	\$ 68,553
2008	35,737
2009	31,560
2010	1,400
2011	848
2012-2016	1,107
2017-2021	736
Total	\$ 139,941

**PERRY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(9) Deficit Fund Balance of Individual Funds.

The District Maintenance Fund has a deficit fund balance in the amount of \$292,044. The deficit fund balance of the District Maintenance Fund is in violation of state law. However, the school district has no liability associated with this violation.

(10) Prior Period Adjustments/Exhibits.

A summary of significant fund equity adjustments is as follows:

Exhibit B - Statement of Activities

<u>Explanation(s)</u>	<u>Amount</u>
1. To properly record advances in the prior year and to correct a prior year error in recording an asset or liability	(4,153)
Total	\$ (4,153)

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

<u>Major Funds</u>	<u>Explanation(s)</u>	<u>Amount</u>
General Fund	To properly record an advance received in the prior year	\$ (269,000)
16th Section Principal Fund	To properly record an advance made in the prior year	269,000
Other governmental funds	To correct a prior year error in recording an asset or liability	(4,153)
Total		\$ (4,153)

(11) Subsequent Events.

On August 29, 2005, Hurricane Katrina passed through the State of Mississippi. Perry County School District suffered significant damage to its property, buildings and equipment as a result of this hurricane. The estimated cost of the damage as of the date of this report is approximately \$1,200,000. To date Perry County Schools has been advanced \$400,000 from its insurance carrier and has received \$369,191 in displaced student funds, restart school grant funds and other disaster relief funds. The district is currently in the process of filing claims with its with its insurance carrier. The district expects its damages to be covered, however an estimate of the district's uncovered losses is not determinable at this time.

(12) 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. 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.

**PERRY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(13) Prior Year Defeasance of Debt.

In the prior years, the Perry County School District defeased certain Trust Certificates by placing the proceeds of new bonds, less issuance costs, in an irrevocable trust to provide for all future debt service payments on the Trust Certificates. As a result, the Trust Certificates are considered to be defeased and the liability for those certificates has been removed from long-term liabilities. On June 30, 2006, \$384,000 of certificates outstanding are defeased.

(14) 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 June 1, 2001. The district is a participant in the Mississippi School Districts Qualified Zone Academy Bond Program pursuant to Section 37-59-101, *et seq.*, Miss Code Ann. (1972). Participation in this program is governed by the Trust Agreement.

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 June 1. The amount accumulated in the sinking fund at the end of the ten-year period will be sufficient to retire the debt. The following schedule reports the yearly deposits to be made to the sinking fund by the school district.

Year Ending June 30	Amount
2007	\$ 30,000
2008	30,000
2009	30,000
2010	22,000
2011	<u>9,000</u>
Total	<u>\$ 121,000</u>

PERRY COUNTY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

PERRY COUNTY SCHOOL DISTRICT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

SCHEDULE 1A

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variances</u>	
	<u>Original</u>	<u>Final</u>		<u>Original to Final</u>	<u>Final to Actual</u>
REVENUES					
Local sources	\$ 2,275,685	\$ 2,377,135	\$ 2,377,128	\$ 101,450	\$ (7)
State sources	5,307,074	5,514,756	5,514,755	207,682	(1)
Federal sources	530,000	540,018	540,016	10,018	(2)
Total Revenues	8,112,759	8,431,909	8,431,899	319,150	(10)
EXPENDITURES					
Instruction	4,924,295	4,933,622	4,933,536	(9,327)	86
Support services	2,825,338	2,811,919	2,811,810	13,419	109
Non-instructional services	601	-	-	601	-
Debt Service:					
Principal	16,692	-	-	16,692	-
Interest	12,465	3,054	3,053	9,411	1
Total Expenditures	7,779,391	7,748,595	7,748,399	30,796	196
Excess (deficiency) of Revenues over (under) Expenditures	333,368	683,314	683,500	349,946	186
OTHER FINANCING SOURCES (USES)					
Proceeds of loans	1,200,000	-	-	(1,200,000)	-
Transfers in	721,956	999,835	999,834	277,879	(1)
Transfers out	(2,340,931)	(2,436,770)	(2,436,767)	(95,839)	3
Total Other Financing Sources (Uses)	(418,975)	(1,436,935)	(1,436,933)	(1,017,960)	2
Net change in fund balances	(85,607)	(753,621)	(753,433)	(668,014)	188
Fund Balances—July 1, 2004			868,297		
Prior period adjustment			(269,000)		
Fund Balances—As restated July 1, 2004			599,297		
Fund Balances—June 30, 2005			\$ (154,136)		

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

PERRY COUNTY SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2006

Budgetary Comparison Schedules

(1) Basis of Presentation

The Budgetary Comparison Schedule presents 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 revision

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 consistent with accounting principles generally accepted in the United States of America.

PERRY COUNTY SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

PERRY COUNTY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2006

Federal Grantor/ Pass-through Grantor/ <u>Program Title</u>	Catalog of Federal Domestic <u>Assistance Number</u>	Federal <u>Expenditures</u>
<u>U. S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	\$ 40,050
Child nutrition cluster		
School breakfast program	10.553	176,118
National school lunch program	10.555	399,314
Total child nutrition cluster		<u>575,432</u>
Schools and roads - grants to states	10.665	<u>495,288</u>
Total U.S. Department of Agriculture		<u>1,110,770</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The Schools and Libraries Program of the universal service fund	32.XXX	<u>33,741</u>
Total Federal Communications Commission		<u>33,741</u>
<u>U. S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	382,196
Vocational education - basic grants to states	84.048	29,177
Safe and drug-free schools and communities - state grants	84.186	10,070
Even start - state educational agencies	84.213	105,604
Twenty-first century community learning centers	84.287	93,660
State grants for innovative programs	84.298	7,184
Education technology state grants	84.318	7,156
Comprehensive school reform demonstration	84.332	1,460
Reading first state grants	84.357	560,984
Rural education	84.358	42,226
Improving teacher quality - state grants	84.367	137,118
Total		<u>1,376,835</u>
Special education cluster:		
Special education - grants to states	84.027	345,648
Special education - preschool grants	84.173	7,475
Total		<u>353,123</u>
Hurricane Education Recovery	84.938	251,002
Total passed-through Mississippi Department of Education		<u>1,980,960</u>
Total U.S. Department of Education		<u>1,980,960</u>
Total for All Federal Awards		<u>\$ 3,125,471</u>

NOTES TO SCHEDULE

1. This schedule was prepared using the same basis of accounting and the same significant accounting policies used for the financial statements.
2. The expenditure amounts include transfers out.

Perry County School District
 Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
 For the Year Ended June 30, 2006

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 8,795,673	\$ 6,738,250	\$ 441,131	\$ 632,237	\$ 984,055
Other	<u>4,276,803</u>	<u>1,034,745</u>	<u>166,074</u>	<u>54,986</u>	<u>3,020,998</u>
Total	<u>\$ 13,072,476</u>	<u>\$ 7,772,995</u>	<u>\$ 607,205</u>	<u>\$ 687,223</u>	<u>\$ 4,005,053</u>
Total number of students *	1,390				
Cost per student	<u>\$ 9,405</u>	<u>\$ 5,592</u>	<u>\$ 437</u>	<u>\$ 494</u>	<u>\$ 2,881</u>

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

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

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

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

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

* include the number of students reported on the ADA report submission for month 9, which is the final submission for the fiscal year

include 100 and 200 range object codes on the "Salaries and fringe benefits" line; all other expenditures on the "Other" line

PERRY COUNTY SCHOOL DISTRICT

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

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

Superintendent and School Board
Perry County School District

We have audited the financial statements of the of the governmental activities, each major fund and the aggregate remaining fund information of the Perry County School District as of and for the year ended June 30, 2006, which collectively comprise the Perry County School District's basic financial statements and have issued our report thereon dated November 17, 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 opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did not note any matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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 did not disclose any instances of noncompliance or other matters that are required to be reported under Government Auditing Standards

Page 2

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.

King CPA, PLLC

KING CPA, PLLC
Petal, Mississippi
November 17, 2006

PERRY COUNTY SCHOOL DISTRICT

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

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

Superintendent and School Board
Perry County School District

Compliance

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

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

Internal Control Over Compliance

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

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

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

King CPA, PLLC

KING CPA, PLLC
Petal, Mississippi
November 17, 2006

PERRY COUNTY SCHOOL DISTRICT

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

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Superintendent and School Board
Perry County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Perry County School District as of and for the year ended June 30, 2006, which collectively comprise Perry County School District's basic financial statements and have issued our report thereon dated November 17, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3) (a) (iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$2,096 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 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.

King CPA, PLLC
KING CPA, PLLC
Petal, Mississippi
November 17, 2006

PERRY COUNTY 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 general purpose financial statements: | <u>UNQUALIFIED</u> |
| 2. Material noncompliance relating to the general purpose 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 weakness? | <u>NO</u> |

Federal Awards:

- | | |
|---|----------------------|
| 4. Type of auditor's report issued on compliance for major federal programs: | <u>UNQUALIFIED</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 OMB Circular A-133? | <u>NO</u> |
| 7. Federal programs identified as major programs: | |
| Reading First State Grants | CFDA # <u>84.357</u> |
| Hurricane Education Recovery | CFDA # <u>84.938</u> |
| Schools and roads – Grants to States | CFDA # <u>10.665</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 reactive to federal awards which would require the auditee to prepare a summary schedule of prior audits 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 Cost

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

PERRY COUNTY SCHOOL DISTRICT

AUDITEE'S CORRECTIVE ACTION PLAN

AUDITEE'S CORRECTIVE ACTION PLAN

As required by Section .315 (b) of OMB Circular A-133, the Perry County 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:

<u>Finding</u>	<u>Correction Action Plan Details</u>
None	

PERRY COUNTY SCHOOL DISTRICT

AUDITEE'S SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

AUDITEE'S SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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

<u>Finding</u>	<u>Corrective Action Plan Details</u>
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There are no unresolved prior audit findings.