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**QUITMAN COUNTY SCHOOL DISTRICT**  
**FINANCIAL STATEMENTS**  
**AND**  
**REPORTS OF INDEPENDENT AUDITOR**  
**(With Supplemental Information Schedules)**  
**FOR THE YEAR ENDED JUNE 30, 2006**

**PREPARED BY:**

**Charles Buchanan, CPA, PC**  
**Certified Public Accountants**  
**8733 Riverview Blvd., Suite 1**  
**St. Louis, Missouri 63147**  
**(314)-869-2720(bus)/(314)-869-5955(fax)**  
**charlesbuchanan8@aol.com**

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Charles Buchanan, CPA, PC  
Certified Public Accountants  
8733 Riverview Blvd., Suite 1  
St. Louis, Mo 63147  
(314)-869-2720 (BUS)/(314)-869-5955 (FAX)  
charlesbuchanan8@aol.com

**INDEPENDENT AUDITOR'S REPORT**

Superintendent and School Board  
Quitman 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 Quitman County School District ("the District") as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Quitman County School District ("the 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 February 20, 2007 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 2 through 6, and budgetary comparison schedule and corresponding notes on pages 27-28 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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.

Charles Buchanan, CPA, PC  
St. Louis, Missouri  
February 20, 2007

**Quitman County School District  
Management's Discussion and Analysis  
For the year ended June 30, 2006**

The discussion and analysis of the Quitman County School District's (the District) financial performance provides an overall narrative review of the financial activities for the year ended June 30, 2006. The intent of this discussion and analysis is to look at the District's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the 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.

This discussion and analysis is an element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999. Certain comparative information between the current and prior year is required to be presented.

**FINANCIAL HIGHLIGHTS**

- Total net assets decreased by \$82,956, which represents a 4% decrease from fiscal year 2005.
- General revenues account for \$9,950,453 in revenue, or 78% of all revenues. Program specific revenues in the form of charges for services, grants, and contributions accounted for \$2,775,000 or 22% of total revenues.
- The District had \$12,484,692 in expenses offset by \$2,775,000 in program specific charges for services, grants and contributions. General revenues of \$9,950,453 were adequate to provide for these programs.
- Among major funds, the General Fund had \$8,886,989 in revenues, \$8,324,903 in expenditures, and \$366,115 in other financing uses. The General Fund's fund balance increased \$195,971 due to increases in support services and other financing uses.
- Capital assets, net of accumulated depreciation, decreased by \$354,713.
- Long-term debt decreased by \$200,323 due mostly to retirement of the Series 2004 Trust Certificate of Participation.

**OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis serves as an introduction to the basic financial statements, which is comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements and other supplementary information.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of 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 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 describing changes in net assets during the fiscal year. 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.

**Quitman County School District  
Management's Discussion and Analysis  
For the year ended June 30, 2006**

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

**Fund financial statements.** A fund is a grouping of related accounts 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. District funds can be divided into two categories: governmental and fiduciary funds.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of 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 comparisons 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 the governmental fund statement of revenues, expenditures, and changes in fund balances for all major funds. Non-major funds are combined and presented in these reports as other governmental funds.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of non-related parties and are not reflected in the government-wide financial statements since resources of those funds are not available to support the District's programs. The accrual basis of accounting is used for fiduciary funds. The district is responsible to ensure that assets reported in these funds are used for their intended purpose.

**Notes to the financial statements.** Notes provide additional information essential to a full understanding of the financial statements.

**Other information.** This report also presents certain required supplementary information concerning the budget process. The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement is provided for the General and each additional major fund. Additionally, a schedule of expenditures of federal awards is required by OMB Circular A-133.

**Quitman County School District  
Management's Discussion and Analysis  
For the year ended June 30, 2006**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net assets.** Net assets may serve over time as a useful indicator of government's financial position. District assets exceeded liabilities by \$1,931,092 as of June 30, 2006.

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

The following table presents a summary of net assets:

	<b>Fiscal Year 2006</b>	<b>Fiscal Year 2005</b>	<b>Variance</b>
Current assets	\$ 1,655,645	\$ 2,186,910	\$ (531,265)
Capital assets, net	1,773,423	2,128,136	(354,713)
<b>Total Assets</b>	<b>3,429,068</b>	<b>4,315,046</b>	<b>(885,978)</b>
Current liabilities	229,128	876,729	(647,601)
Long-term liabilities	1,268,848	1,424,269	(155,421)
<b>Total Liabilities</b>	<b>1,497,976</b>	<b>2,300,998</b>	<b>(803,022)</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	422,423	576,813	(154,390)
Restricted	266,403	578,863	(312,460)
Unrestricted	1,242,266	858,372	383,894
<b>Total Net Assets</b>	<b>1,931,092</b>	<b>2,014,048</b>	<b>(82,956)</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 3,429,068</b>	<b>\$ 4,315,046</b>	<b>\$ (885,978)</b>

The following transactions had a significant impact on the Statement of Net Assets:

- Principal retirement of long-term debt.
- Reduction in capital assets due to the following:

	<b>Amount</b>
Mobile equipment	\$ 71,088
Furniture and equipment	15,395
Leased property under capital leases	13,112
<b>Additions to capital assets</b>	<b>99,595</b>
Retirement of capital assets	(94,309)
Retirement of accumulated depreciation on capital assets	87,513
Depreciation expense	(122,314)
Adjustments to capital assets	(38,300)
Adjustments to accumulated depreciation	(286,898)
<b>Change in capital assets, net of accumulated depreciation</b>	<b>(454,308)</b>
Retirement of debt	200,323
Addition of debt	-
<b>Change in debt</b>	<b>200,323</b>
<b>Change in investment in net assets, net of related debt</b>	<b>\$ (154,390)</b>

**Quitman County School District  
Management's Discussion and Analysis  
For the year ended June 30, 2006**

**Changes in net assets.** The District's revenues were \$12,725,453. The total cost of all programs and services was \$12,484,692. The following table presents a summary of changes in net assets:

	<u>Fiscal Year 2006</u>	<u>Fiscal Year 2005</u>	<u>Variance</u>
<b>Revenues:</b>			
Program revenues:			
Charges for services	\$ 41,260	\$ 151,884	\$ (110,624)
Operating grants and contributions	2,733,740	3,495,471	(761,731)
General revenues:			
Property taxes	1,915,975	1,770,392	145,583
Grants and contributions not restricted	7,706,439	6,873,173	833,266
Other	328,039	131,740	196,299
<b>Total revenues</b>	<u>12,725,453</u>	<u>12,422,660</u>	<u>302,793</u>
<b>Expenses:</b>			
Instruction	6,477,676	5,816,183	661,493
Support services	4,769,910	4,986,160	(216,250)
Non-instructional	1,159,538	1,373,986	(214,448)
Sixteenth Section	122	343	(221)
Interest on long-term liabilities	77,446	88,601	(11,155)
<b>Total expenses</b>	<u>12,484,692</u>	<u>12,265,273</u>	<u>219,419</u>
<b>Revenues over(under) expenses</b>	240,761	157,387	83,374
Loss on refunding of debt	-	(26,456)	26,456
Gain (loss) on disposal of fixed assets	-	(1,239)	1,239
<b>Change in net assets</b>	<u>\$ 240,761</u>	<u>\$ 129,692</u>	<u>\$ 111,069</u>

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

	<u>Fiscal Year 2005 Total Expenses</u>	<u>Fiscal Year 2005 Net (Expense) Revenue</u>	<u>Fiscal Year 2006 Total Expenses</u>	<u>Fiscal Year 2006 Net (Expense) Revenue</u>	<u>Change in Total Expenses</u>
Instruction	\$ 5,816,183	\$ 4,831,744	\$ 6,477,676	\$ 4,588,429	\$ 661,493
Support services	4,986,160	3,384,072	4,769,910	4,720,839	(216,250)
Non-instructional	1,373,986	313,158	1,159,538	322,856	(214,448)
Sixteenth section	343	343	122	122	(221)
Interest on long-term liabilities	88,601	88,601	77,446	77,446	(11,155)
<b>Total expenses</b>	<u>\$ 12,265,273</u>	<u>\$ 8,617,918</u>	<u>\$ 12,484,692</u>	<u>\$ 9,709,692</u>	<u>\$ 219,419</u>

- The net cost of \$9,709,692 governmental activities in fiscal year 2006 was financed by general revenue, which primarily consist of property taxes of \$1,834,713 and state revenue of \$7,497,892.
- Investment earnings accounted for \$11,158 of funding.

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

**Governmental funds.** The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Unreserved fund balance may serve as a useful measure of net resources available for spending.

**Quitman County School District  
Management's Discussion and Analysis  
For the year ended June 30, 2006**

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$1,602,051; and an increase due primarily to an increase in revenues. \$1,486,827 or 92.8% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$115,224 or 7.2% is reserved or designated to indicate that it is not available for spending because it has been committed.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$195,971. The fund balance of Other Governmental Funds showed a decrease of \$115,615.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the District revised its annual operating budget because of additions to indirect cost, increases in personnel salaries, and federal program expenses. A schedule showing the original and final budgets compared to actual financial activity for the General and other major funds are provided as required supplementary information.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of June 30, 2006, the District's total capital assets were \$4,410,143, including school buildings, buses, other vehicles, furniture and equipment. This amount represents a decrease of \$33,014 from the previous year. Accumulated depreciation was \$2,636,720, and depreciation expense was \$122,314, resulting in net capital assets of \$1,773,423.

**Debt Administration.** The District had \$1,351,000 in long-term debt, net of compensated absences outstanding, of which \$137,000 was due within one year. Additional information on long-term debt can be found in note 5 of the Notes to the Financial Statement.

**CURRENT ISSUES**

The District is financially stable and is proud of the community support of the public schools. The District is considering constructing a new gym at the Quitman County Middle School. Contracts have not been negotiated at this point.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

If you have questions about this report, contact Miron Thompson, Business Manager, at the Superintendent's Office of the Quitman County School District, Quitman County Courthouse Annex, Marks, MS 38646, telephone number (662)326-5451.

QUITMAN COUNTY SCHOOL DISTRICT  
Statement of Net Assets  
June 30, 2006

Exhibit A

	Governmental Activities
<b>Assets</b>	
Cash and cash equivalents	\$ 1,300,840
Due from other governments	336,169
Inventories and prepaid items	18,636
Capital assets, not being depreciated:	
Land	76,652
Capital assets, net of accumulated depreciation:	
Buildings	133,842
Building improvements	438,232
Mobile equipment	812,059
Furniture and equipment	301,582
Leased property under capital leases	11,056
<b>Total Assets</b>	<b>3,429,068</b>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	16,871
Due to other governments	36,723
Interest payable on long-term liabilities	15,029
Long-term liabilities, due within one year	
Capital related liabilities	137,000
Non-capital related liabilities	23,505
Long-term liabilities, due beyond one year	
Capital related liabilities	1,214,000
Non-capital related liabilities	54,848
<b>Total Liabilities</b>	<b>1,497,976</b>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	422,423
Restricted net assets:	
Expendable:	
School-based activities	145,977
Debt service	74,303
Capital improvements	7,256
Forestry improvements	7,091
Unemployment benefits	31,776
Unrestricted	1,242,266
<b>Total Net Assets</b>	<b>\$ 1,931,092</b>

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

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

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
<b>Governmental Activities:</b>					
Instruction	\$ (6,477,676)	41,260	1,847,987		\$ (4,588,429)
Support services	(4,769,910)		49,071		(4,720,839)
Non-instructional	(1,159,538)		836,682		(322,856)
Sixteenth section	(122)				(122)
Interest on long-term liabilities	(77,446)				(77,446)
<b>Total Governmental Activities</b>	<b>\$ (12,484,692)</b>	<b>41,260</b>	<b>2,733,740</b>		<b>(9,709,692)</b>

General Revenues:

Taxes:

General purpose levies	1,834,713
Debt purpose levies	81,262

Unrestricted grants and contributions:

State	7,497,892
Federal	208,547
Unrestricted investment earnings	11,158
Sixteenth section sources	144,032
Other	172,849

Total General Revenues 9,950,453

Change in Net Assets 240,761

Net Assets - Beginning 2,014,048

Prior Period Adjustments (note 7) (323,717)

Net Assets - Beginning - Restated 1,690,331

Net Assets - Ending \$ 1,931,092

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

ASSETS

	Major Funds				Total Governmental Funds
	General Fund	School Food Service Fund	Title I	Other Governmental Funds	
Cash and cash equivalents	\$ 787,277	208,099		305,464	1,300,840
Due from other governments	89,108		91,000	119,339	299,447
Due from other funds	361,055	34,272	98,469	21,339	515,135
Inventories		18,636			18,636
<b>Total Assets</b>	<b>\$ 1,237,440</b>	<b>261,007</b>	<b>189,469</b>	<b>446,142</b>	<b>2,134,058</b>

LIABILITIES AND FUND BALANCES

Liabilities:

Accounts payable and accrued liabilities	\$ 12,032			12,449	24,481
Due to other funds	97,796	68,000	189,469	152,261	507,526
<b>Total Liabilities</b>	<b>109,828</b>	<b>68,000</b>	<b>189,469</b>	<b>164,710</b>	<b>532,007</b>

Fund Balances:

Reserved for:					
Inventory		18,636			18,636
Capital projects				7,256	7,256
Debt service				89,332	89,332
Unreserved:					
Designated for, reported in:					
Special revenue funds		174,371		184,844	359,215
Undesignated, reported in:					
General Fund	1,127,612				1,127,612
<b>Total Fund Balances</b>	<b>1,127,612</b>	<b>193,007</b>		<b>281,432</b>	<b>1,602,051</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,237,440</b>	<b>261,007</b>	<b>189,469</b>	<b>446,142</b>	<b>2,134,058</b>

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

Exhibit C-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 1,602,051
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets are used in governmental activities and are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$2,636,720	1,773,423
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(1,351,000)
3. Governmental funds recognize interest on long-term debt when it becomes due, however the Statement of Net Assets recognizes interest as it accrues.	(15,029)
4. <b>Compensated absences:</b> Compensated absences are paid from the fund from which employee's salaries are paid. Employees of the school district accumulate sick leave at a minimum amount as required by state law or at a greater amount provided by district policy.	(78,353)
Total Net Assets - Governmental Activities	\$ <u><u>1,931,092</u></u>

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

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2006

	Major Funds			Other	Total
	General Fund	School Food Fund	Title I Fund	Governmental Funds	Governmental Funds
<b>Revenues:</b>					
Local sources	\$ 1,847,061	91,040		203,141	2,141,242
State sources	6,922,805	5,120		569,967	7,497,892
Federal sources	117,123	906,415	895,850	1,022,899	2,942,287
Sixteenth section sources				144,032	144,032
<b>Total Revenues</b>	<b>8,886,989</b>	<b>1,002,575</b>	<b>895,850</b>	<b>1,940,039</b>	<b>12,725,453</b>
<b>Expenditures:</b>					
Instruction	5,016,884		338,362	1,115,637	6,470,883
Support services	3,227,183	89,263	639,485	745,194	4,701,125
Noninstructional services	80,714	913,414	22,001	186,488	1,202,617
Sixteenth section	122				122
<b>Debt service:</b>					
Principal				200,323	200,323
Interest				69,808	69,808
Other		4,691		5	4,696
<b>Total Expenditures</b>	<b>8,324,903</b>	<b>1,007,368</b>	<b>999,848</b>	<b>2,317,455</b>	<b>12,649,574</b>
<b>Excess (Deficiency) of Revenues over Expenditures</b>	<b>562,086</b>	<b>(4,793)</b>	<b>(103,998)</b>	<b>(377,416)</b>	<b>75,879</b>
<b>Other Financing Sources (Uses):</b>					
Operating transfers in	453,771		168,759	551,256	1,173,786
Operating transfers out	(819,886)	(37,445)	(34,000)	(282,455)	(1,173,786)
<b>Total Other Financing Sources (Uses)</b>	<b>(366,115)</b>	<b>(37,445)</b>	<b>134,759</b>	<b>268,801</b>	<b>0</b>
<b>Net Change in Fund Balances</b>	<b>195,971</b>	<b>(42,238)</b>	<b>30,761</b>	<b>(108,615)</b>	<b>75,879</b>
<b>Fund Balances:</b>					
July 1, 2005	931,641	235,245	(30,762)	397,047	1,533,171
Prior period adjustments			1	(7,000)	(6,999)
July 1, 2005, as restated	931,641	235,245	(30,761)	390,047	1,526,172
June 30, 2006	\$ 1,127,612	193,007	0	281,432	1,602,051

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

QUITMAN COUNTY SCHOOL DISTRICT

Exhibit D-1

Reconciliation of the Governmental Funds Statement of Revenues,  
Expenditures and Changes in Fund Balances to the Statement of Activities  
For the Year Ended June 30, 2006

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ 75,879
Amounts reported for governmental activities in the Statement of Activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchased amounted to \$99,595 and the depreciation expense amounted to (\$122,314).	(22,719)
2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Activities.	200,323
3. Governmental funds recognize interest on long-term debt when it becomes due, however, the Statement of Activities recognizes interest as it accrues regardless of when it becomes due.	(7,638)
4. Compensated absences	(5,084)
Change in Net Assets of Governmental Activities	\$ <u>240,761</u>

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

QUITMAN COUNTY SCHOOL DISTRICT  
Statement of Fiduciary Assets and Liabilities  
June 30, 2006

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ <u>642,538</u>
Total Assets	<u>642,538</u>
Liabilities	
Accounts payable and accrued liabilities	605,815
Due to other funds	7,609
Due to student clubs	<u>29,114</u>
Total Liabilities	\$ <u>642,538</u>

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

**Quitman County School District  
Notes to the Financial Statements  
For the year ended June 30, 2006**

(1) Summary of Significant Accounting Policies

The accompanying financial statements of the 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 district's accounting policies are described below.

A. Financial Reporting Entity

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

The Quitman County Leasing Authority ("the Authority") as explained in the following paragraph is considered to be a blended component unit as determined by Section 2100 of the *Codification of Governmental Accounting and Financial Reporting Standards* and is included in the district's reporting entity.

The Authority is governed by a three member board appointed by the district's governing board. Although legally separate from the district, it is reported as if it is part of the primary government because its sole purpose is to provide financing for the renovation, improvement, construction, and equipping of certain school facilities. All District's assets, liabilities, equity, revenues, expenditures and other financing sources and uses have been included in the government-wide financial statements.

B. Basis of Presentation

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

*Government-wide Financial Statements:*

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

The Government-wide Statement of Net Assets presents the financial condition of the governmental activities at year-end. The Government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program. 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 not classified as program revenues are presented as general revenues, 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 general revenues of the district.

*Fund Financial Statements:*

Fund financial statements are organized into funds 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.

**Quitman County School District  
Notes to the Financial Statements  
For the year ended June 30, 2006**

(1) Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting, as are the Fiduciary Fund financial statements. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flow take 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 and agency funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Property taxes, state appropriations, and federal awards associated with the current fiscal period are considered susceptible to accrual and are 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 district reports the following major governmental funds:

General Fund - This fund is the primary operating fund. It accounts for all financial resources, except those required to be accounted for in other funds.

Food Service Fund – This fund accounts for the lunch program that provides meals to students and teachers.

Title I Fund – This fund accounts for federal grants that are used to supplement educational services for disadvantaged children.

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 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 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.

**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.

**Quitman County School District  
Notes to the Financial Statements  
For the year ended June 30, 2006**

(1) Summary of Significant Accounting Policies (continued)

D. Account Classifications

The account classifications used in the financial statements conform to the classifications prescribed in the *Financial Accounting Manual for Mississippi Public School Districts* issued by the Office of the State Auditor. The classifications in that manual 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 district deposits excess funds in financial institutions selected by the school board. State statutes specify how these depositories are selected. Cash and cash equivalents consist of amounts on deposit in demand accounts and certificates of deposit with maturities of 12 months or less. Cash and cash equivalents are valued at cost.

G. Investments

The 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.

H. Inventories and Prepaid Items

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

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

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

I. Capital Assets

Capital acquisition and construction are reflected as expenditures in the Governmental Fund statements and related assets are reported 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.

**Quitman County School District  
Notes to the Financial Statements  
For the year ended June 30, 2006**

(1) Summary of Significant Accounting Policies (continued)

I. Capital Assets(continued)

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

(\* ) The threshold amount will correspond with the amounts for the asset classifications, as listed.  
See Note 4 for details.

J. Long-term liabilities

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

K. Interfund Transactions and Balances

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

Short-term (due within one year) interfund loan receivables are reported as "due from/to 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 financial resources and, therefore, are not available for appropriation.

Transfers are used to (a) move revenues from the fund that state statute or budget requires collection to the fund that state 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 3 for details for interfund transactions, including receivables and payables at year-end.

**Quitman County School District  
Notes to the Financial Statements  
For the year ended June 30, 2006**

(1) Summary of Significant Accounting Policies (continued)

L. Equity Classifications

*Government-wide Financial Statements:*

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

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

*Fund Financial Statements:*

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

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

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

Reserved for capital projects - An account that represents a portion of the fund balance in the Capital Projects Funds that is legally restricted and not available for spending for any other purpose than that for which it is restricted.

Reserved for debt service - An account that represents a portion of fund balance which indicates that debt service money does not represent available spendable resources even though they are a component of current assets.

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 district requesting an ad valorem tax effort in dollars. Since the taxes are not levied and collected by the district, revenues to be generated by the annual levies are not recognized until the taxes are actually collected by the levying authority.

**Quitman County School District  
Notes to the Financial Statements  
For the year ended June 30, 2006**

(1) Summary of Significant Accounting Policies (continued)

N. Mississippi Adequate Education Program Revenues

Revenues from the adequate education program are appropriated on a fiscal year basis and recorded at the time 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 district policy. Some employees are allowed personal leave and/or vacation leave in accordance with 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 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) Cash and Cash Equivalents and Investments

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 districts' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

The carrying amounts of district's deposits with financial institutions reported in the governmental and fiduciary funds were \$1,300,840 and \$642,538 respectively. The carrying amount of deposits reported in the government-wide financial statements was: cash and cash equivalents \$1,300,840. There were no restricted assets reported for the year ended June 30, 2006. The bank balances were \$2,419,013.

*Custodial Credit Risk - Deposits.* Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2006, \$0 of the district's bank balance of \$2,419,013 was exposed to custodial credit risk.

**Quitman County School District  
Notes to the Financial Statements  
For the year ended June 30, 2006**

Investments

Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to invest surplus funds in the types of investments authorized by Section 27-105-33(d) and (e), Miss. Code Ann. (1972). This section permits the following types of investments: (a) certificates of deposits and interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, the principal and interest of which are fully guaranteed by the government or enumerated agency of the United States; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or interest in, and open-end or closed-end any management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration. Investment income on bond funds (Capital Projects), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Amounts less than \$100 are credited to the General Fund.

The school district did not have outstanding investments at June 30, 2006.

(3) **Interfund Transactions and Balances**

The following is a summary of interfund transactions and balances:

A. Due From/Due To Other Funds

	<u>Due From</u>	<u>Due To</u>
<b>Governmental funds:</b>		
General	\$ 361,055	\$ 97,796
Food service	34,272	68,000
Title I	98,469	189,469
Other governmental	21,339	152,261
Sub-total governmental funds	515,135	507,526
Fiduciary	-	7,609
<b>Total</b>	<b>\$ 515,135</b>	<b>\$ 515,135</b>

Interfund transactions and balances are the results 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.

Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets, see Note (3) for details for interfund transactions, including receivables and payables at year end.

B. Transfers In/Out

	<u>Transfers In</u>	<u>Transfers Out</u>
<b>Governmental funds:</b>		
General	\$ 453,771	\$ 819,886
Food service	-	37,445
Title I	168,759	34,000
Other governmental	551,256	282,455
<b>Total</b>	<b>\$ 1,173,786</b>	<b>\$ 1,173,786</b>

Transfers are used to (a) move funds from the statute or budget requires collecting 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.

**Quitman County School District  
Notes to the Financial Statements  
For the year ended June 30, 2006**

(4) Capital Assets

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

	Balance July 1, 2005	Additions	Retirements	Prior Year Adjustments	Balance June 30, 2006
<b>Non-depreciable capital assets:</b>					
Land	\$ 76,652	\$ -	\$ -	\$ -	\$ 76,652
<b>Total non-depreciable capital assets</b>	<b>76,652</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>76,652</b>
<b>Depreciable capital assets:</b>					
Buildings	2,489,990	-		(1,078,911)	1,411,079
Building improvements	-	-	-	1,388,212	1,388,212
Mobile equipment	1,348,189	71,088	(47,000)	(158,439)	1,213,838
Furniture and equipment	502,556	15,395	(47,309)	(163,392)	307,250
Leased property under capital leases	25,770	13,112	-	(25,770)	13,112
<b>Total depreciable capital assets</b>	<b>4,366,505</b>	<b>99,595</b>	<b>(94,309)</b>	<b>(38,300)</b>	<b>4,333,491</b>
<b>Total capital assets</b>	<b>4,443,157</b>	<b>99,595</b>	<b>(94,309)</b>	<b>(38,300)</b>	<b>4,410,143</b>
<b>Less accumulated depreciation</b>					
Buildings	(1,151,289)	(5,676)		(120,272)	(1,277,237)
Building improvements	(845,625)	(55,528)		(48,827)	(949,980)
Mobile equipment	(309,002)	(45,463)	42,300	(89,614)	(401,779)
Furniture and equipment	(9,105)	(13,793)	45,213	(27,983)	(5,668)
Leased property under capital leases		(1,854)		(202)	(2,056)
<b>Less total accumulated depreciation</b>	<b>(2,315,021)</b>	<b>(122,314)</b>	<b>87,513</b>	<b>(286,898)</b>	<b>(2,636,720)</b>
<b>Total depreciable capital assets, net</b>	<b>2,051,484</b>	<b>(22,719)</b>	<b>(6,796)</b>	<b>(325,198)</b>	<b>1,696,771</b>
<b>Governmental activities capital assets, net</b>	<b>\$2,128,136</b>	<b>\$ (22,719)</b>	<b>\$ (6,796)</b>	<b>\$ (325,198)</b>	<b>\$ 1,773,423</b>

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 6,793
Support services	68,788
Non-instructional	46,733
<b>Total depreciation expense</b>	<b>\$ 122,314</b>

**Quitman County School District  
Notes to the Financial Statements  
For the year ended June 30, 2006**

(5) Long-term Liabilities

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

	Balance July 1, 2005	Additions	Reductions	Adjustments	Balance June 30, 2006	Amounts due within one year	Amounts due after one year
A. Certificates of participation payable	\$ 1,482,000	\$ -	\$ (131,000)	\$ -	\$ 1,351,000	\$ 137,000	\$ 1,214,000
B. Three mill notes payable	69,323	-	(69,323)	-	-	-	-
C. Obligations under capital leases	-	-	-	-	-	-	-
D. Compensated absences payable	73,269	5,084	-	-	78,353	23,505	54,848
Total	<u>\$ 1,624,592</u>	<u>\$ 5,084</u>	<u>\$ (200,323)</u>	<u>\$ -</u>	<u>\$ 1,429,353</u>	<u>\$ 160,505</u>	<u>\$ 1,268,848</u>

A. Certificates of participation payable.

As more fully explained in Note 11, certificates of participation have been issued by the school district. Certificates of participation currently outstanding are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Certificates of participation Series 2004	4.45%	7/2/2004	3/1/2015	\$ 1,630,000	\$ 1,351,000
Total				<u>\$ 1,630,000</u>	<u>\$ 1,351,000</u>

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

Year Ending June 30	Principal	Interest	Total
2007	\$ 137,000	\$ 60,120	\$ 197,120
2008	143,000	54,024	197,024
2009	149,000	47,660	196,660
2010	156,000	41,030	197,030
2011	163,000	34,086	197,086
2012-2015	603,000	60,650	663,650
Total	<u>\$ 1,351,000</u>	<u>\$ 297,570</u>	<u>\$ 1,648,570</u>

This debt will be retired from the Other Debt Retirement Fund.

**Quitman County School District  
Notes to the Financial Statements  
For the year ended June 30, 2006**

B. Three mill notes payable.

Debt was retired during the year as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Three mill notes payable Series 1996	5.56%	Saturday, June 01, 1996	Wednesday, February 01, 2006	\$ 550,000	\$ -
Total				<u>\$ 550,000</u>	<u>\$ -</u>

C. Obligations under capital leases

The school district entered into a lease agreement for band equipment that qualified as a capital lease for accounting purposes. The district purchased the equipment at the end of the lease for \$1. The debt was retired from the District Maintenance Fund.

D. Compensated absences payable

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

(6) Pension Plan

Public Employee's Retirement System of Mississippi (PERS)

**Plan Description.** The 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 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 district's contributions to PERS for the fiscal years ending June 30, 2007, 2006 and 2005 were \$756,928, \$648,458 and \$575,512 respectively, which equaled the required contributions for each year.

(7) Prior Year Adjustments

Net assets, beginning of year	\$ 2,014,048
Fixed assets/accumulated depreciation disposed in prior years	(331,994)
Other Adjustments	<u>8,277</u>
Net assets, beginning of year, restated	1,690,331
Change in net assets	<u>240,761</u>
Net assets, end of year	<u>\$ 1,931,092</u>

QUITMAN COUNTY SCHOOL DISTRICT

Notes to the Financial Statements

For the Year Ended June 30, 2006

(8) Other Commitments

The district has an operating lease for an ATT telephone system. Lease expenditures for the year ended June 30, 2006, amounted to \$310. The final payment was made during the fiscal year.

(9) Sixteenth Section Lands

Sixteenth section school lands, or lands granted in lieu thereof, constitute property held in trust for the benefit of the public schools. The school board, under the general supervision of the Office of the Secretary of State, has control and jurisdiction of said school trust lands and of all funds arising from any disposition thereof. It is the duty of the 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 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	Amount
June 30	
2007	\$ 102,002
Total	\$ 102,002

(10) Risk Management

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

Participation in Public Entity Risk Pool

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 119 school districts and covers risks of loss arising from injuries to the school district's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by BancorpSouth Bank in Jackson. The funds in the trust account are used to pay any claim up to \$500,000. For a claim exceeding \$500,000, MSBAWCT has insurance which will pay the excess up to \$25,000,000. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

**Quitman County School District  
Notes to the Financial Statements  
For the year ended June 30, 2006**

(11) Trust Certificates

A trust agreement dated July 2, 2004, was executed by and between the district and Hancock Bank, as trustees. The agreement authorized the refunding of trust certificates in the original principal amount of \$1,630,000. The project is leased to the district in accordance with the provisions of the Emergency School Leasing Authority Act as described in Section 37-7-351, *et seq.*, Miss. Code Ann. (1972). The lease represents a capital lease under which ownership of the project will transfer to the district upon complete retirement of the trust certificates. The district is obligated to make lease payments to the trustee in an amount equal to the debt service requirements for the trust certificates. The lease rental payments by the district are used by the trustee to pay the principal and interest payments due on the trust certificates.

It is not anticipated the project will have sufficient value to satisfy the certificates in the event the district defaults under the lease; therefore, the source of payment of the certificates is the responsibility of the district. See Note 5 for details regarding the debt service requirement on the trust certificates.

Using the guidance provided in Section 2100 of the *Codification of Governmental Accounting and Financial Reporting Standards* dealing with defining the reporting entity, the trust accounts created by this agreement were deemed to constitute an inseparable part of the district. Therefore, assets, liabilities, equity, revenues, expenditures and other financing sources/uses of the trust accounts created by this agreement are part of the district's financial statements, thereby eliminating the effects of the lease agreement for financial reporting purposes.

(12) Alternative School Consortium

The district entered into an Alternative School Agreement dated August 10, 2000 creating the North Delta Alternative School. This consortium was created pursuant to the provisions of Section 37-13-92 (6), Miss. Code Ann. (1972), and approved by the Mississippi Department of Education and includes: West Tallahatchie School District, Quitman County School District, Coahoma County School District, Coahoma Agricultural High School, Drew School District, Sunflower County School District, East Tallahatchie School District, North Bolivar School District, and Mound Bayou School District.

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

The West Tallahatchie School District has been designated as the lead school district for the North Delta Alternative School, and the operations of the consortium are included in its financial statements.

(13) Twenty-first Century Community Learning Center Consortia

North Delta Twenty-first Century Community Learning Center Consortium.

The district entered into a Community Learning Center Agreement dated March 15, 2000, creating the North Delta Twenty-first Century Community Learning Center Consortium. This consortium was created pursuant to the provisions of Section 37-7-301(dd), Miss. Code Ann. (1972), and approved by the Mississippi Department of Education. The consortium includes the Youth Opportunities Unlimited, Inc., North Panola School District, West Tallahatchie School District, North Delta Mississippi Enterprise Community, Delta Rural Systems Initiative, Northwest Mississippi Community College, Coahoma Community College, Quitman County Development Organization, Mississippi State Cooperative Extension Service, Batesville Mississippi Police Department, Northwest Mississippi Public Health District Number 1, and the University of Mississippi Institute of Continuing Studies.

**Quitman County School District  
Notes to the Financial Statements  
For the year ended June 30, 2006**

Twenty-first Century Community Learning Center Consortiums (cont'd)

Delta Horizon Twenty-first Century Community Learning Center Consortium.

The district entered into a Community Learning Center Agreement dated March 7, 2000, creating the Delta Horizon Twenty-first Century Community Learning Center Consortium. This consortium was created pursuant to the provisions of Section 37-7-301(dd), Miss. Code Ann. (1972), and includes Cleveland Alternative Center, East Side High School, R.H. Bearden Elementary School, O'Bannon High School, Riverside High School, Manning Elementary School, Greenville Public School District, Webb Elementary School, Garrett Hall Alternative School, Gentry High School, Simmons High School, Indianola Junior High School and Quitman County Middle School.

The following Statement of Revenues, Expenditures and Changes in Fund Balance is presented to detail the financial activity of the North Delta Twenty-first Century Community Learning Center Consortium.

**North Delta Twenty-first Century Community Learning Center Consortium  
Statement of Revenues, Expenditures and Changes in Fund Balance- Governmental Funds  
for the year ended June 30, 2006**

Revenues		
Federal sources	\$ 32,937	
Total Revenues		\$ 32,937
Expenditures		
Salaries	18,975	
Employee benefits	3,578	
Supplies	-	
Other	-	
Total Expenditures		22,553
Excess (Deficiency) of revenues over expenditures		10,384
Other financing sources (uses)		
Transfer in	\$ -	
Total other financing sources		-
Net change in fund balance		10,384
Fund balance:		
July 1, 2005		-
June 30, 2006		\$ 10,384

**REQUIRED SUPPLEMENTAL INFORMATION**

QUITMAN COUNTY SCHOOL DISTRICT

Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	\$ 1,887,458	\$1,818,423	\$1,847,061	(\$69,035)	\$28,638
State sources	7,024,094	6,988,846	6,922,805	(35,248)	(66,041)
Federal sources	50,000	59,571	117,123	9,571	57,552
<b>Total Revenues</b>	<b>8,961,552</b>	<b>8,866,840</b>	<b>8,886,989</b>	<b>(94,712)</b>	<b>20,149</b>
<b>Expenditures:</b>					
Instruction	5,326,082	5,227,879	5,016,884	98,203	210,995
Support services	3,493,990	3,299,777	3,227,183	194,213	72,594
Noninstructional services	67,304	83,171	80,714	(15,867)	2,457
Sixteenth section	200	122	122	78	0
<b>Total Expenditures</b>	<b>8,887,576</b>	<b>8,610,949</b>	<b>8,324,903</b>	<b>276,627</b>	<b>286,046</b>
<b>Excess (Deficiency) of Revenues over Expenditures</b>	<b>73,976</b>	<b>255,891</b>	<b>562,086</b>	<b>181,915</b>	<b>306,195</b>
<b>Other Financing Sources (Uses):</b>					
Operating transfers in	513,397	371,470	453,771	(141,927)	82,301
Other financing sources	86,000	141,913	0	55,913	(141,913)
Operating transfers out	(748,475)	(729,978)	(819,886)	18,497	(89,908)
<b>Total Other Financing Sources (Uses)</b>	<b>(149,078)</b>	<b>(216,595)</b>	<b>(366,115)</b>	<b>(67,517)</b>	<b>(149,520)</b>
Special items				0	0
Extraordinary items				0	0
<b>Net Change in Fund Balances</b>	<b>(75,102)</b>	<b>39,296</b>	<b>195,971</b>	<b>114,398</b>	<b>156,675</b>
<b>Fund Balances:</b>					
July 1, 2005	1,167,402	1,015,500	931,641	(151,902)	(83,859)
June 30, 2006	\$ 1,092,300	1,054,796	1,127,612	(37,504)	72,816

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

**Quitman County School District  
Notes to the Required Supplementary Information  
For the year ended June 30, 2006**

**Budgetary Comparison Schedule**

**(1) Basis of Presentation**

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

**(2) Budget amendments and revisions**

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

**Quitman County School District**  
**Schedule of Expenditures of Federal Awards**  
**For the year ended June 30, 2006**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<b><u>U.S. Department of Agriculture</u></b>		
Passed-through Mississippi Department of Education:		
Non-cash Assistance:		
Food Donation	10.550	\$ 7,660
<i>Child nutrition cluster:</i>		
School Breakfast Program	10.553	288,368
National School Lunch Program	10.555	561,337
Summer Food Service Program for Children	10.559	17,933
<b>Subtotal Child Nutrition Cluster:</b>		<b>867,638</b>
<i>Fruits and Vegetables:</i>		
Fresh Fruit and Vegetables	10.582	43,553
Special Supplemental Nutrition Program for Women, Infants, & Children	10.557	7,846
<b>Subtotal Fruits and Vegetables:</b>		<b>51,399</b>
<b>Total U.S. Department of Agriculture</b>		<b>\$ 926,697</b>
<b><u>Federal Communications Commission</u></b>		
Administered through the Universal Service Administrative Company		
The Schools & Libraries Programs of the Universal Service Fund	32.xxx	49,071
<b>Total Federal Communications Commission</b>		<b>49,071</b>
<b><u>U.S. Department of Education</u></b>		
Passed-through Mississippi Department of Education:		
Title I-Grants to Local Educational Agencies	84.010	1,079,272
Career & Technical Education-Basic Grants to States	84.048	42,735
Safe and Drug-Free Schools and Communities-State Grants	84.186	7,561
Grants for State Assessments and Related Activities	84.369	9,803
Education Technology State Grants	84.318	20,549
Rural Education	84.358	61,920
Improving Teacher Quality-State Grants	84.367	395,598
Hurricane Education Recovery	84.938	30,000
Safe and Drug-Free Schools & Communities National Programs	84.184	8,078
<b>Total</b>		<b>1,655,516</b>
<i>Special Education Cluster:</i>		
Special Education-PreSchool Grants	84.173	2,997
Special Education-Grants to States	84.027	333,710
<b>Sub-total Special Education</b>		<b>336,707</b>
<b>Total passed-through Mississippi Department of Education</b>		<b>1,992,223</b>
<b>Total U. S. Department of Education</b>		<b>1,992,223</b>
<b><u>Corporation for National and Community Service</u></b>		
Passed-through Mississippi Department of Education:		
Learn & Serve America School & Community Based Programs	94.004	10,000
<b>Total Corporation for National and Community Service</b>		<b>10,000</b>
<b><u>U.S. Department of Health and Human Services</u></b>		
Passed-through Mississippi Department of Education:		
Cooperative Agreements to Support Comprehensive School Health Programs to		
Prevent the Spread of HIV and Other Important Health Problems	93.938	3,000
<b>Total U.S. Department of Health and Human Services</b>		<b>3,000</b>
<b>Total for All Federal Awards</b>		<b>\$ 2,980,991</b>

**Notes to Schedule**

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

Quitman 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	\$ 8,946,846	5,773,665	669,648	605,113	1,898,420
Other	3,537,846	704,011	167,211	54,173	2,612,451
<b>Total</b>	<b>\$ 12,484,692</b>	<b>6,477,676</b>	<b>836,859</b>	<b>659,286</b>	<b>4,510,871</b>

Total number of students \* 1,541

Cost per student \$ 8,102 \$ 4,204 \$ 543 \$ 428 \$ 2,927

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

**REPORTS ON INTERNAL CONTROL AND COMPLIANCE**

Charles Buchanan, CPA, PC  
Certified Public Accountants  
8733 Riverview Blvd., Suite 1  
St. Louis, Missouri 63147  
(314)-869-2720 (bus)/(314)-869-5955 (fax)  
charlesbuchanan8@aol.com

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

Superintendent and School Board  
Quitman County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Quitman County School District (the district) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 20, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control 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 district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance or other matters that we have reported to management of the school district in a separate letter dated February 20, 2007, which is included in this report.

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

Charles Buchanan, CPA, PC  
St. Louis, Missouri  
February 20, 2007

Charles Buchanan, CPA, PC  
Certified Public Accountants  
8733 Riverview Blvd., Suite 1  
St. Louis, Missouri 63147  
(314)-869-2720 (bus)/(314)-869-5955 (fax)  
charlesbuchanan8@aol.com

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

Superintendent and School Board  
Quitman County School District

Compliance

We have audited the compliance of the Quitman County School District, ("the 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 District's major federal programs are identified in the summary of auditor's results section of the Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the district's management. Our responsibility is to express an opinion on the 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 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 District's compliance with those requirements.

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

Internal Control Over Compliance

The management of the 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 District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

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.

Charles Buchanan, CPA, PC  
St. Louis, Missouri  
February 20, 2007

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

Charles Buchanan, CPA, PC  
Certified Public Accountants  
8733 Riverview Blvd., Suite 1  
St. Louis, Missouri 63147  
(314)-869-2720 (bus)/(314)-869-5955 (fax)  
charlesbuchanan8@aol.com

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

Superintendent and School Board  
Quitman County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Quitman County School District (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 20, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instance of noncompliance. The district reported \$18,991 of classroom supply funds carried over from previous years.

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements disclosed the following immaterial instances of noncompliance with other state laws and regulations. Our findings and recommendations and your responses are as follows:

### **2006-1 Finding (Repeat Finding 2005, 2004)**

The school district did not have sufficient unemployment fund balance to cover the 2% limitation required by Section 71-5-35, Miss. Code Ann. (1972)

#### Recommendation

The district should comply with Section 71-5-359, Miss. Code Ann. (1972), which requires that cash and investment balances to have sufficient amount to cover 2% of applicable wages.

#### Auditee's Response

The school district will make sure that there are sufficient funds in the unemployment fund balance to cover the 2% limitation required by Section 71-5-35, Miss. Code Ann. (1972).

The Office of the State Auditor or a public accounting firm will review, on the subsequent year's audit engagement, the finding in this report to insure that corrective action has been taken.

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

Charles Buchanan, CPA, PC  
St. Louis, Missouri  
February 20, 2007

**Quitman 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 financial statements:                          | Unqualified   |
| 2. | Material noncompliance relating to the financial statements?                          | No            |
| 3. | Internal control over financial reporting:  |               |
| a. | Material weakness(es) identified?   | No            |
| b. | Reportable condition(s) identified that are not considered to be material weaknesses? | None reported |

Federal Awards:

- |     |  |               |
|-----|--|---------------|
| 4.  | Type of auditor's report issued on compliance for major federal programs:  | Unqualified   |
| 5.  | Internal control over major programs:  |               |
| a.  | Material weakness(es) identified?  | No            |
| b.  | Reportable condition(s) identified that are not considered to be material weaknesses?  | None reported |
| 6.  | Any audit finding(s) reported as required by Section ____.510(a) of Circular A-133?  | None          |
| 7.  | Federal programs identified as major programs:   |               |
| a.  | Child Nutrition Cluster<br>CFDA #10.555<br>CFDA #10.553<br>CFDA #10.559  |               |
| b.  | Title I grants to local educational agencies<br>CFDA #84.010   |               |
| c.  | Improving teacher quality-state grants<br>CFDA #84.367   |               |
| 8.  | The dollar threshold used to distinguish between type A and type B programs:   | \$300,000     |
| 9.  | Auditee qualified as a low-risk auditee?   | No            |
| 10. | Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____.315(b) of OMB Circular A-133? | Yes           |

**Section 2: Financial Statement Findings**

There are no financial statement findings.

**Section 3: Federal Award Findings and Questioned Costs**

There were no federal award findings.

**Quitman County School District  
Summary Schedule of Prior Year Findings  
For the year ended June 30, 2006**

2005-1 The high school activity trust bank account, Crowder School Fund, and Westside Elementary School accounts were reconciled to a bank balance dated June 20, 2005 and June 5, 2005, respectively.

Status: Implemented

2005-2 The district refinanced its 1997 Series Certificate of Participation debt but did not remove the old debt and record new debt on its books.

Status: Implemented