

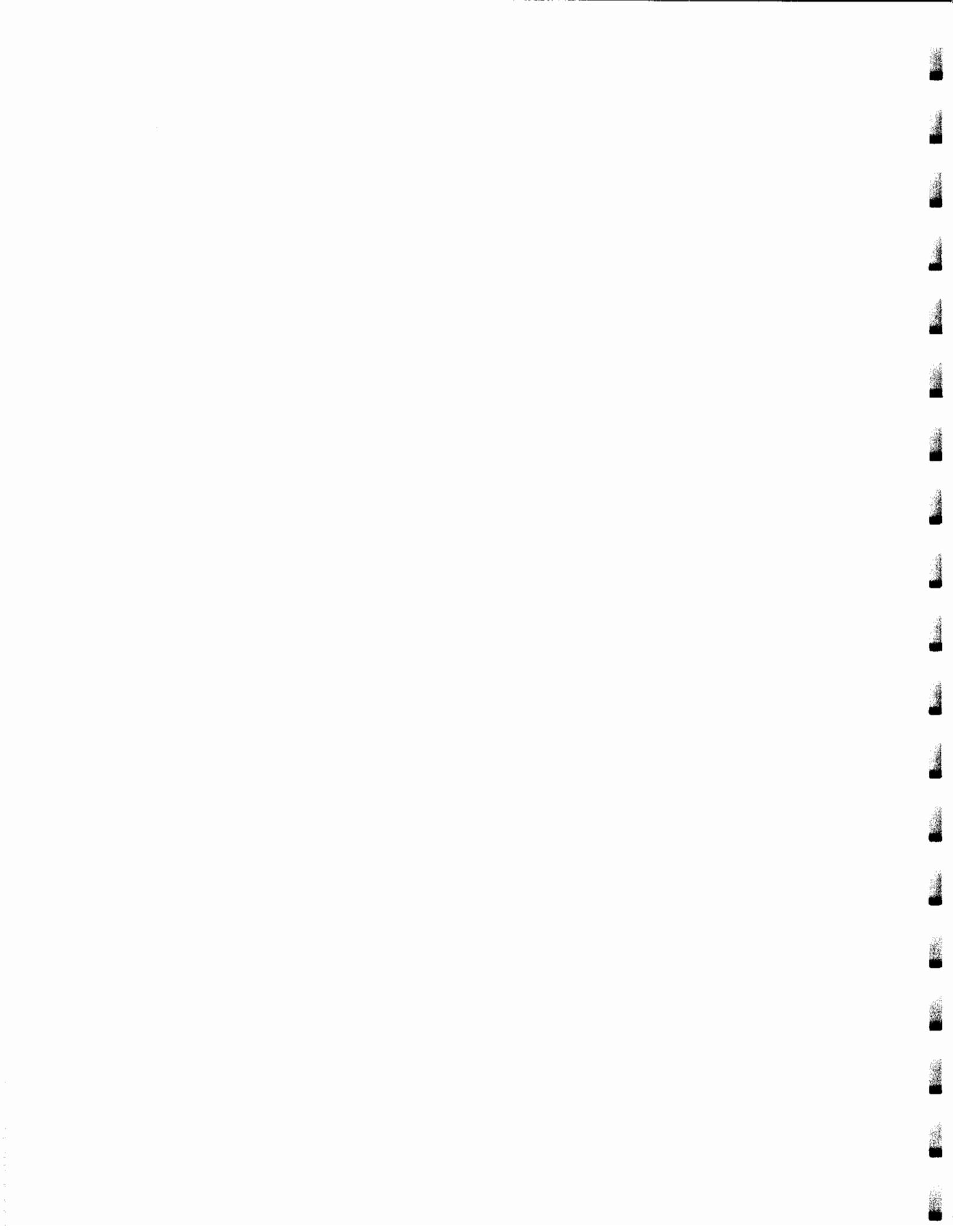


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**QUITMAN SCHOOL DISTRICT
QUITMAN, MISSISSIPPI**

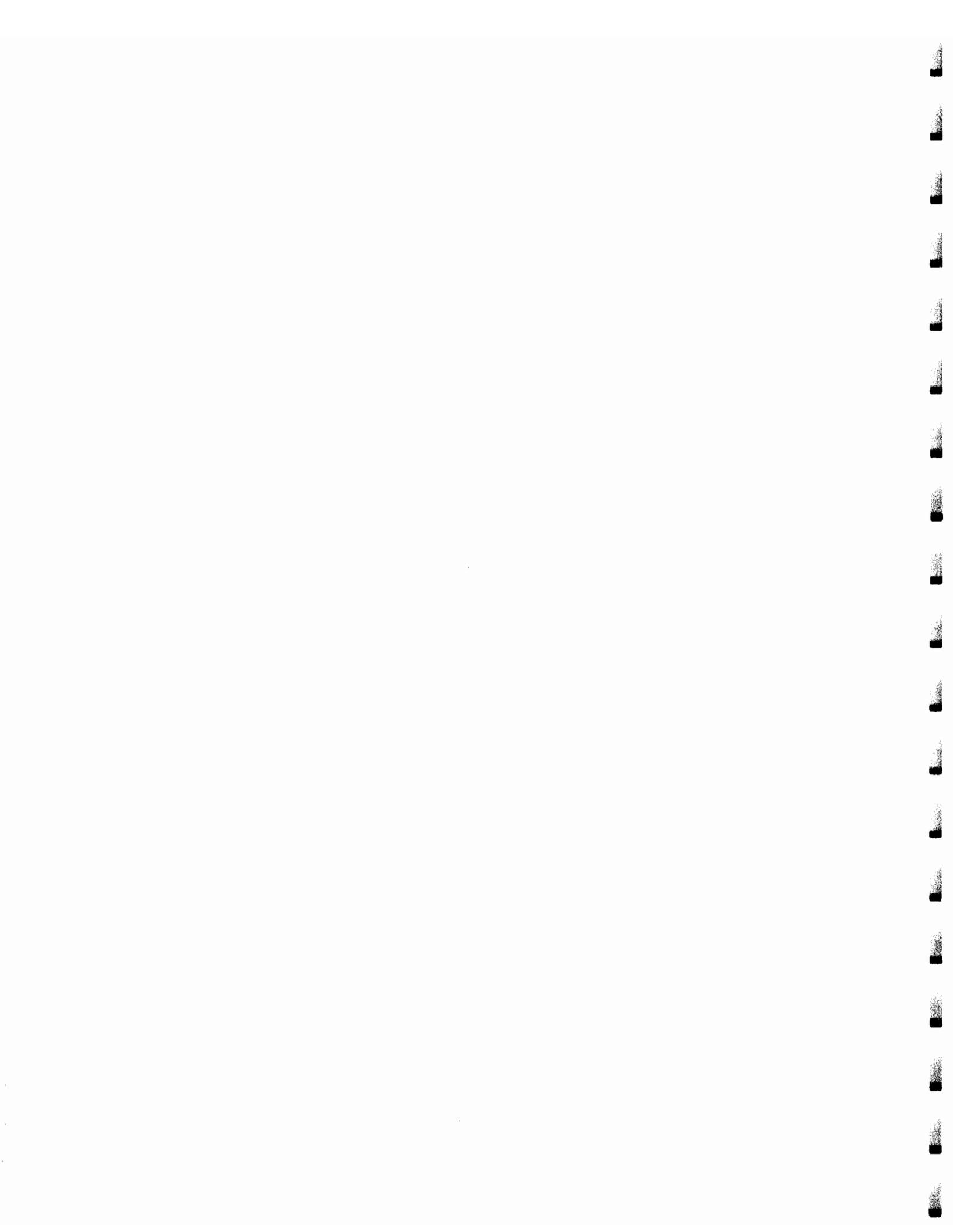
**AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

(With Independent Auditor's Reports Thereon)

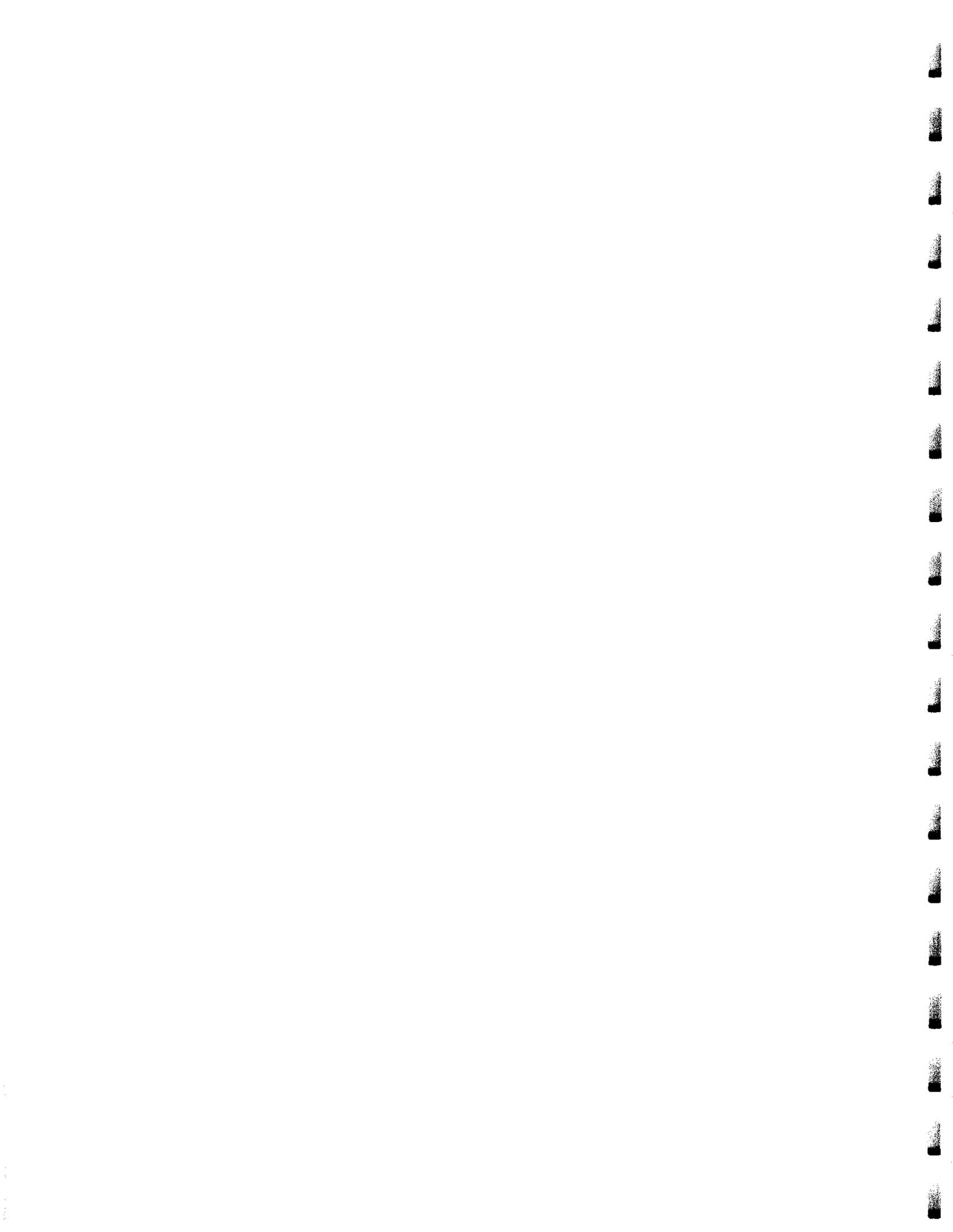


**Quitman School District
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FINANCIAL AUDIT REPORT



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

Superintendent and School Board
Quitman School District

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

I conducted my 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 I 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. I believe that my audit provides a reasonable basis for my opinion.

In my 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 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, I have also issued my report dated October 21, 2006, on my consideration of the Quitman School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 my audit.

The Management's Discussion and Analysis on pages 5 through 12 and the Budgetary Comparison Schedule and corresponding notes on pages 41 through 42 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I 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, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Quitman 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 the 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 my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Stephen D. Myrick
Certified Public Accountant

October 17, 2006
Quitman, Mississippi

MANAGEMENT'S DISCUSSION AND ANALYSIS

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Quitman School District

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

The discussion and analysis of Quitman 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.

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 year and the prior year is required to be presented.

The primary mission of the Quitman School District is to provide a quality educational program that recognizes the wide range of learning capabilities, backgrounds, needs, and interests of students with the secondary mission of providing opportunities for learning and involvement for citizens residing within the school community.

Quitman School District is one of two school districts located in Clarke County, Mississippi, which has a total population of 17,955 according to the 2000 census. The total net enrollment of the district for the FY 2005 and 2006 year was 2,341 and 2,164, respectively, which represents a slight decline in enrollment between the two years and an 19% decline in the last five years. A major contributing factor to this trend is the economic decline in the county, which is causing many families to relocate in order to find jobs. In addition, some families are opting for private or home-schooling to educate their children.

Suzanne C. Hawley, Ed. D., Superintendent ♦ Pamela D. Compton, Ed. D., Asst. Superintendent/Personnel ♦ Wendy C. Tucker, Child Nutrition

Karen E. Chisolm, Curriculum ♦ Elisa A. Mayo, Finance ♦ Joe Edwards, Transportation ♦ Ronnie G. Cook, Maintenance

Greg Fleming, 16th Section/Testing ♦ John Korzenko, Technology ♦ Steven C. Hampton, Activities/Athletic Director

FINANCIAL HIGHLIGHTS

- Long-term liabilities of the district are currently at \$317,407, which is a decrease of \$84,772 from the previous year's total of \$402,179.
- Special grants were awarded to the district in order to continue the GED program. In addition, grant funds were available for technological improvements.
- Expenditures of the district showed an increase of \$1,762,538 over the previous year, largely due to an 8% teacher pay raise, increase in retirement contribution percentage paid by employer, increase in health insurance premiums, and a raise for all classified staff. In addition, damages from Hurricane Katrina amounted to one half million dollars.
- Revenues of the district increased by \$628,522 from the previous year. This includes proceeds of special federal impact aid grants received by the district from educating children displaced as a result of Hurricane Katrina.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

The government-wide financial statements can be found on pages 16-17 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 19 and 21, respectively.

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

The basic governmental fund financial statements can be found on pages 18 and 20, respectively, of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The school district's fiduciary activities are presented in separate Statements of Fiduciary Net Assets on page 22.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24-39 of this report.

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

The District adopts an annual operating budget for all governmental funds. Budgetary comparisons have been provided for the General Fund and each additional major fund. This required supplementary information can be found on page 41 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Circular A-133 and can be found on page 46-47 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$17,284,425 and \$17,161,119 as of June 30, 2005 and 2006, respectively.

The largest portion of the District's net assets (58%) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment, leased property under capital leases and construction in progress, less any related debt used to acquire those assets that is still outstanding). The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

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

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

	Net Assets		Percentage Change
	June 30, 2006	June 30, 2005	
Current assets	\$ 7,574,904	\$ 7,551,913	0.30%
Capital assets, net	10,369,453	10,603,113	-2.20%
Total assets	\$17,944,357	\$18,155,026	-1.16%
Current liabilities	\$465,831	468,422	-0.55%
Long-term debt outstanding	317,407	402,179	-21.08%
Total liabilities	783,238	870,601	-10.03%
Net assets:			
Invested in capital assets, net of related debt	10,214,453	10,378,113	-1.58%
Restricted	1,770,074	2,084,005	-15.06%
Unrestricted	5,176,592	4,822,307	7.35%
Total net assets	\$17,161,119	\$17,284,425	-0.71%

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

- A 9% decrease in cash and cash equivalents is a result of the increase in expenses outpacing the increase in revenues. Increased expenses were due mainly to pay raises for staff. The decreases in revenues were due to a reduction in timber sales from the previous fiscal year.
- A decrease in liabilities due to a reduction of debt through principal payments made during the fiscal year.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2005 and 2006 were \$16,504,020 and \$17,588,477, respectively. The total cost of all programs and services was \$16,072,985 for fiscal year 2005 and \$17,711,783 for fiscal year 2006. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2005 and 2006.

	<u>Change in Net Assets</u>		Percentage Change
	<u>June 30, 2006</u>	<u>June 30, 2005</u>	
Revenues:			
Program revenues:			
Charges for services	\$ 851,664	\$ 870,399	-2.15%
Operating grants and contributions	3,470,068	3,145,077	10.33%
General revenues:			
Property taxes	2,450,235	2,421,161	1.20%
Grants and contributions not restricted	9,731,226	9,075,409	7.23%
Other	1,085,284	991,974	9.41%
Total revenues	<u>17,588,477</u>	<u>16,504,020</u>	6.57%
Expenses:			
Instruction	9,806,597	9,067,454	8.15%
Support services	6,705,023	5,766,138	16.28%
Non-instructional	1,106,405	1,086,078	1.87%
Sixteenth section	80,953	134,936	-40.01%
Interest and other expense on long-term liabilities	12,805	18,379	-30.33%
Total expenses	<u>17,711,783</u>	<u>16,072,985</u>	10.20%
Increase (Decrease) in net assets	(123,306)	431,035	-128.61%
Net Assets, July 1	<u>17,284,425</u>	<u>16,853,390</u>	2.56%
Net Assets, June 30	<u>\$ 17,161,119</u>	<u>\$ 17,284,425</u>	-0.71%

Governmental activities. The following table presents the cost of five major District 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.

	2006 Total	2006 Net	2005	2005 Net
	Expenses	(Expense)Revenue	Expenses	(Expense) Revenue
Instruction	\$ 9,806,597	\$ (7,329,381)	\$ 9,067,454	\$ (7,049,929)
Support services	6,705,023	(5,843,796)	5,766,138	(4,895,546)
Non-instructional	1,106,405	(184,256)	1,086,078	(92,222)
Sixteenth section	80,953	(19,813)	134,936	(1,433)
Interest on long-term liabilities	12,805	(12,805)	18,379	(18,379)
Total expenses	<u>\$ 17,711,783</u>	<u>\$ (13,390,051)</u>	<u>\$ 16,072,985</u>	<u>\$ (12,057,509)</u>

- Net cost of governmental activities (\$12,057,509 and \$13,390,051) was financed by general revenue, which is made up primarily of property taxes (\$2,421,161 and \$2,450,235) and unrestricted state and federal revenue (\$9,075,490 and \$9,731,226) for the 2005 and 2006 fiscal years, respectively.
- Investment earnings accounted for \$138,407 for 2005 fiscal year and \$143,177 for the 2006 fiscal year of funding.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$7,109,073, an increase of \$25,582 from the previous year. This slight increase is due to an increase in revenues, but a larger increase in expenditures as compared to the previous fiscal year. \$5,981,531 or 84% of the fund balance for fiscal year 2006 constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$1,127,542 or 16% is reserved or designated to indicate that it is not available for spending because it has already been committed. This is a slight increase in the amount of fund balance reserved from the previous fiscal year, due to collecting more ad valorem taxes during the fiscal year than requested and larger balance in the Forestry Escrow Fund of the school district.

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for fiscal year 2006 was \$162,320 a result of a decrease in assets. The fund balance of Other Governmental Funds showed an increase of \$187,902 from the previous fiscal year as a result of increased revenues at year end.

BUDGETARY HIGHLIGHTS

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

- Budgeted amounts for revenue was below the amounts actually collected. This difference is due to an increase in ad valorem collections and a positive collection rate on funds from the State of Mississippi.
- Budgeted amounts for repairs were below actual amounts due to the unforeseen damages caused by Hurricane Katrina. This also affected the budgeted amount for insurance loss recoveries since money was received from insurance claims that were not expected.
- The budgeted amount for facilities acquisition and construction was below the amount actually spent, due to coding these remodeling related expenses as purchased services instead of asset acquisition.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2006, the District's total capital assets were \$18,463,794, including land, construction in progress, school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$209,425 from the previous year. Total accumulated depreciation as of June 30, 2006 was \$8,094,341 and total depreciation expense for the year was \$584,315, resulting in total net assets of \$10,369,453. Total net assets for the previous fiscal year was \$10,603,113.

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

Debt Administration. At June 30, 2006, the District had \$317,407 in general obligation bonds and other long-term debt outstanding, of which \$92,033 is due within one year. This is a reduction in debt of \$84,772 from the previous fiscal year.

The District does not have a bond rating.

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

CURRENT ISSUES

The Quitman School District is currently financially stable.

The District has committed itself to financial excellence for many years. The millage rate has increased only by .50 mills over 10 years. For FY2006, the rate was 32.48 mills, far below the 55-mill cap set by the legislature. The millage rate for FY2005 was 34.23 mills. The millage rate is used to assess ad valorem taxes for the county in which the school district operates. In

addition, the District's system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

Student enrollment figures have been declining since 1998. The latest figures show a continual declining pattern of enrollment. The School District is in school improvement status, which will impact the manner in which funding is used for instructional purposes. The school district should be eligible to be released from school improvement for the 2006-2007 school year if AYP is met during testing.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Quitman School District, 104 East Franklin Street, Quitman, MS 39355.

FINANCIAL STATEMENTS

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QUITMAN SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2006

	<u>Primary Government Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 5,879,664
Due from other governments	791,905
Other receivables, net	263,333
Inventories and prepaid items	32,556
Restricted assets	607,446
Capital assets, not being depreciated:	
Land	174,918
Capital assets, net of accumulated depreciation:	
Buildings	5,275,686
Building improvements	3,062,343
Improvements other than buildings	328,774
Mobile equipment	1,026,174
Furniture and equipment	156,431
Leased property under capital leases	345,127
Total Assets	\$ 17,944,357
LIABILITIES	
Accounts payable and accrued liabilities	448,142
Deferred revenue/Unearned revenue	17,689
Long-term liabilities (due within one year):	
Capital related liabilities	75,000
Non-capital related liabilities	17,033
Long-term liabilities (due beyond one year):	
Capital related liabilities	80,000
Non-capital related liabilities	145,374
Total Liabilities	\$ 783,238
NET ASSETS	
Invested in capital assets, net of related debt	10,214,453
Restricted net assets	
Expendable:	
School-based activities	827,535
Debt Service	2,254
Forestry improvements	232,779
Unemployment benefits	50,760
Non-expendable:	
Sixteenth section	656,746
Unrestricted	5,176,592
Total Net Assets	\$ 17,161,119

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

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction	\$ 9,806,597	\$ 704,873	\$ 1,772,343	\$ -	\$ (7,329,381)
Support services	6,705,023	6,373	854,854	-	(5,843,796)
Noninstructional services	1,106,405	79,278	842,871	-	(184,256)
Sixteenth section	80,953	61,140	-	-	(19,813)
Interest on long-term liabilities	12,805	-	-	-	(12,805)
Total Governmental Activities	\$ 17,711,783	\$ 851,664	\$ 3,470,068	\$ -	(13,390,051)
General Revenues:					
Taxes:					
General purpose levies					2,448,214
Debt service levies					2,021
Unrestricted grants and contributions					
State					9,628,301
Federal					102,925
Unrestricted investment earnings					143,177
Sixteenth Section sources					427,903
Other					514,204
Total General Revenues					13,266,745
Change in Net Assets					(123,306)
Net Assets - Beginning					17,284,425
Net Assets - Ending					\$ 17,161,119

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

QUITMAN SCHOOL DISTRICT
Balance Sheet - Governmental Funds
June 30, 2006

	Major Fund General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 4,743,578	\$ 1,743,532	\$ 6,487,110
Due from other governments	195,616	596,289	791,905
Other receivables, net	257,801	-	257,801
Due from other funds	24,117	24,650	48,767
Advance to other funds	-	24,650	24,650
Inventories and prepaid items	-	32,556	32,556
Total Assets	\$ 5,221,112	\$ 2,421,677	\$ 7,642,789
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 344,034	\$ 99,549	\$ 443,583
Due to other funds	29,371	18,423	47,794
Advances from other funds	24,650	-	24,650
Deferred revenue	2,390	15,299	17,689
Total Liabilities	400,445	133,271	533,716
Fund Balances:			
Reserved for:			
Advances	-	24,650	24,650
Forestry Improvements	-	232,779	232,779
Inventory	-	32,556	32,556
Ad valorem	159,194	-	159,194
Unemployment	-	50,760	50,760
Debt service funds	-	11,539	11,539
Permanent funds	-	616,064	616,064
Unreserved:			
Undesignated, reported in:			
General fund	4,661,473	-	4,661,473
Special revenue funds	-	1,320,058	1,320,058
Total fund balances	4,820,667	2,288,406	7,109,073
Total Liabilities and Fund Balances	\$ 5,221,112	\$ 2,421,677	\$ 7,642,789

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

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

	Amount
Total Fund Balance - Governmental Funds	\$ 7,109,073
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets are used in governmental activities, are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$8,094,341.	10,369,453
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(317,407)
Total Net Assets - Governmental Activities	\$ 17,161,119

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

QUITMAN SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

	Major Fund General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Local sources	\$ 2,908,090	\$ 358,314	\$ 3,266,404
State sources	9,733,665	390,415	10,124,080
Federal sources	129,766	3,030,967	3,160,733
Sixteenth section sources	-	523,056	523,056
Total Revenues	<u>12,771,521</u>	<u>4,302,752</u>	<u>17,074,273</u>
Expenditures:			
Instruction	7,517,495	2,018,455	9,535,950
Support services	5,775,076	986,130	6,761,206
Noninstructional services	-	1,089,014	1,089,014
Sixteenth section	-	80,953	80,953
Facilities acquisition and construction	2,043	-	2,043
Debt service:			
Principal	10,924	70,000	80,924
Interest	-	12,305	12,305
Other	-	500	500
Total Expenditures	<u>13,305,538</u>	<u>4,257,357</u>	<u>17,562,895</u>
Excess (deficiency) of revenues over expenditures	<u>(534,017)</u>	<u>45,395</u>	<u>(488,622)</u>
Other Financing Sources (Uses):			
Insurance Loss Recoveries	513,254	-	513,254
Operating transfers in	2,172,047	1,131,260	3,303,307
Other financing sources	950	-	950
Operating transfers out	(2,314,554)	(988,753)	(3,303,307)
Total Other Financing Sources (Uses)	<u>371,697</u>	<u>142,507</u>	<u>514,204</u>
Net change in fund balances	(162,320)	187,902	25,582
Fund Balances:			
July 1, 2005	4,982,987	2,100,504	7,083,491
June 30, 2006	<u>\$ 4,820,667</u>	<u>\$ 2,288,406</u>	<u>\$ 7,109,073</u>

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

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

	Amount
Net Change in Fund Balances - Governmental Funds	\$ 25,582
Amounts reported for governmental activities in the statement	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital asset purchase amounted to \$365,443 and the depreciation expense amounted to \$584,315 and the loss on sale of assets amounted to \$14,655. The adjustment for depreciation expenses for leased property under capital leases was \$133.	(233,660)
2. Payment of principal and interest on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of activity.	80,924
3. Some expenses reported in the statement of activities do not require to use of current financial resources and are not reported as expenditures in governmental funds. This includes a net decrease in compensated absences.	3,848
Change in Net Assets of Governmental Activities	\$ (123,306)

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

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

	Private-Purpose Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 1,061	\$ 19,817
Due from other funds	-	4,559
	Total Assets	\$ 24,376
Liabilities		
Due to other funds	\$ -	\$ 5,532
Due to student clubs	-	18,844
	Total Liabilities	\$ 24,376
Net Assets		
Reserved for endowments	1,061	
	Total Net Assets	
	\$ 1,061	

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

QUITMAN SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets
For the Year Ended June 30, 2006

	<u>Private-Purpose Trust Funds</u>
Additions	
Contributions and donations from private sources	\$ 1,061
Total Additions	<u>1,061</u>
Deductions	
Scholarships Awarded	<u>410</u>
Total Deductions	<u>410</u>
Change in Net Assets	651
Net Assets	
July 1, 2005	<u>410</u>
June 30, 2006	<u><u>\$ 1,061</u></u>

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

QUITMAN 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 Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles. The most significant of the school district's accounting policies are described below.

A. Financial Reporting Entity

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

The Quitman Schools 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, which was appointed by the school district's governing board. Although it is legally separate from the school 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. Therefore, all of the Authority's assets, liabilities, equity, revenues, expenditures and other financing sources and uses have been included in the government-wide financial statements of the school district (see Note 11).

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.

QUITMAN SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2006

(1) Summary of Significant Accounting Policies - Continued

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 reporting entity 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.

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 Fidiciary Fund financial statements. Revenues are recognized when earned and expenses are recorded when the liability is incurred or the 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.

QUITMAN SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2006

(1) Summary of Significant Accounting Policies - Continued

The school district reports the following major governmental fund:

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.

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 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.

FIDUCIARY FUNDS

Private-purpose Trust Funds – Private-purpose trust funds are used to report all trust arrangements, other than those properly reported elsewhere, under which the principal and income benefit individuals, private organizations, or other governments.

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.

QUITMAN SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2006

(1) Summary of Significant Accounting Policies - Continued

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.

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.

QUITMAN SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2006

(1) Summary of Significant Accounting Policies - Continued

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 acquisition are added to the capital asset accounts) and estimated useful lives of capital assets are reported in the government-wide statements.

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

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

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

J. Long-term Liabilities

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

QUITMAN SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2006

(1) Summary of Significant Accounting Policies - Continued

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.

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.

QUITMAN SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2006

(1) Summary of Significant Accounting Policies - Continued

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

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

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

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

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

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

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.

QUITMAN SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2006

(1) Summary of Significant Accounting Policies - Continued

O. Compensated Absences

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

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

(2) Changes in Accounting Standards

As required, the Quitman 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

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 amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$6,487,110 and \$19,817, respectively. The carrying amount of deposits reported in the government-wide financial statements were: cash

QUITMAN SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2006

(3) Cash and Cash Equivalents - Continued

and cash equivalents - \$5,879,664 and restricted assets - \$607,446. The restricted assets represent the cash balance of the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$7,776,804.

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, none of the district's bank balance of \$7,776,804 was exposed to custodial credit risk.

(4) Interfund Transactions and Balances

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

	<u>Due From</u>	<u>Due To</u>
Governmental Funds:		
General fund	\$ 24,117	\$ 29,371
Other Governmental Funds	24,650	18,423
Fiduciary Funds	4,559	5,532
Total Funds	<u>\$ 53,326</u>	<u>\$ 53,326</u>

The purpose of the above interfund receivable/payables was to provide for the accrual of indirect costs associated with federal grants, provide working capital to cover negative cash balances and to correct errors in revenue/expenditure coding.

B. Advances To/From Other Funds

	<u>Advances To</u>	<u>Advances From</u>
Governmental Funds:		
General Fund	\$ -	\$ 24,650
Other Governmental Funds	24,650	-
Total Funds	<u>\$ 24,650</u>	<u>\$ 24,650</u>

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 were reflected on Exhibit D-1.

QUITMAN SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2006

(4) Interfund Transactions and Balances - Continued

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	24,650	2,465	27,115
2008	24,650	1,233	25,883
Total	<u>\$ 49,300</u>	<u>\$ 3,698</u>	<u>\$ 52,998</u>

B. Transfers In/Out

	Transfers in	Transfers out
Governmental Funds:		
General fund	\$ 2,172,047	\$ 2,314,554
Other Governmental Funds	1,131,260	988,753
Total Funds	<u>\$ 3,303,307</u>	<u>\$ 3,303,307</u>

The purpose of interfund transfers was to provide for repayment of loan proceeds among general funds and payment of indirect costs allowable under certain federal grants. All transfers were normal and consistent with fund making the transfer.

QUITMAN 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	Adjustments	Balance 6-30-2006
Non-depreciable capital assets:					
Land	\$ 174,918	\$ -	\$ -	\$ -	\$ 174,918
Construction in Progress	19,072	-	(19,072)	-	-
Total non-depreciable capital assets	<u>193,990</u>	<u>-</u>	<u>(19,072)</u>	<u>-</u>	<u>174,918</u>
Depreciable capital assets:					
Buildings	8,823,933	-	-	-	8,823,933
Building improvements	4,635,110	-	-	-	4,635,110
Improvements other than buildings	513,166	-	-	-	513,166
Mobile equipment	2,415,308	351,044	(145,502)	-	2,620,850
Furniture and equipment	953,845	33,471	(10,516)	-	976,800
Leased property under capital leases	719,017	-	-	-	719,017
Total depreciable capital assets	<u>18,060,379</u>	<u>384,515</u>	<u>(156,018)</u>	<u>-</u>	<u>18,288,876</u>
Less accumulated depreciation for:					
Buildings	3,422,045	126,202	-	-	3,548,247
Building improvements	1,387,363	185,404	-	-	1,572,767
Improvements other than buildings	163,865	20,527	-	-	184,392
Mobile equipment	1,551,586	174,042	(130,952)	-	1,594,676
Furniture and equipment	781,401	49,379	(10,411)	-	820,369
Leased property under capital leases	344,996	28,761	-	133	373,890
Total accumulated depreciation	<u>7,651,256</u>	<u>584,315</u>	<u>(141,363)</u>	<u>133</u>	<u>8,094,341</u>
Total depreciable capital assets, net	<u>10,409,123</u>	<u>(199,800)</u>	<u>(14,655)</u>	<u>(133)</u>	<u>10,194,535</u>
Governmental activities capital assets, net	<u>\$ 10,603,113</u>	<u>\$ (199,800)</u>	<u>\$ (33,727)</u>	<u>\$ (133)</u>	<u>\$ 10,369,453</u>

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 288,224
Support Services	276,818
Non-instructional	19,273
Total depreciation expense	<u>\$ 584,315</u>

The capital assets include significant amount of buildings which have been valued as 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.

QUITMAN SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2006

(6) Long-term Liabilities

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

	Balance 7-1-2005	Additions	Reductions	Balance 6-30-2006	Amounts due within one year
A. Certificate of participation payable	\$ 225,000	\$ -	\$ 70,000	\$ 155,000	\$ 75,000
B. Other loans payable	71,009	-	10,924	60,085	10,924
C. Compensated absences payable	106,170	4,648	8,496	102,322	6,109
Total	<u>\$ 402,179</u>	<u>\$ 4,648</u>	<u>\$ 89,420</u>	<u>\$ 317,407</u>	<u>\$ 92,033</u>

A. Certificates of participation payable

As more fully explained in Notes 1(A) and 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
Certificate of Participation-School Lease	Varies	7-15-1993	7-15-2008	\$800,000	\$ 155,000
Total				<u>\$800,000</u>	<u>\$ 155,000</u>

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

Year Ending June 30	Principal	Interest	Total
2007	75,000	6,463	81,463
2008	80,000	2,200	82,200
Total	<u>\$155,000</u>	<u>\$ 8,663</u>	<u>\$ 163,663</u>

The debt will be retired from the EEF Buildings and Buses Fund.

B. Other Loans Payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Asbestos Promissory Note	0%	7-12-93	11-01-11	\$2,685,000	\$ 60,085

QUITMAN SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2006

(6) Long-term Liabilities - Continued

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

	Year Ending June 30	Principal	Interest	Total
2007	2007	10,924	-	10,924
2008	2008	10,924	-	10,924
2009	2009	10,924	-	10,924
2010	2010	10,924	-	10,924
2011	2011	10,924	-	10,924
2012	2012	5,465	-	5,465
Total		<u>\$ 60,085</u>	<u>\$ -</u>	<u>\$ 60,085</u>

The debt will be retired from the District Maintenance Fund.

C. Compensated absences payable

As more fully explained in note 1 (O), compensated absence 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 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 \$1,071,840, \$968,380 and \$854,485, respectively, which equaled the required contributions for each year.

QUITMAN SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2006

(8) Other Commitments.

Operating leases:

The school district has an operating lease for a Riso copier.

Lease expenditures for the year ended June 30, 2006 amounted to \$3,726. Future lease payments for this lease are as follows:

Year Ending June 30	Amount
2007	\$ 2,304
Total	\$ 2,304

(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 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	38,595
2008	38,495
2009	38,495
2010	38,495
2011	37,846
2012-2016	2,685
2017-2021	2,685
2022-2026	2,685
2027-2031	2,685
2032-2036	2,685
2037-2041	2,685
2042-2043	537
Totals	208,573

QUITMAN SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2006

(10) Risk Management

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

Participation in Public Entity Risk Pool

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of 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.

(11) Trust Certificates

A trust agreement dated July 15, 1993, was executed by and between the school district and The Peoples Bank of Biloxi, Mississippi, as trustee.

The trust agreement authorized the issuance of trust certificates in the principal amount of \$800,000. Approximately \$786,092 was used to provide financing for the construction and renovation of school buildings and related facilities and equipment (the "project"); the remainder of approximately \$13,908 was used to pay the cost of issuance.

The project is leased to the school 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 school district upon complete retirement of the trust certificates. The school 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 school district are used by the trustee to pay the principal and interest payments due on the trust certificates.

QUITMAN SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2006

(11) Trust Certificates - Continued

It is not anticipated the project will have sufficient value to satisfy the certificates in the event the school district defaults under the lease; therefore, the source of payment of the certificates is the responsibility of the school district. See Note 6(A) 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 trust agreement were deemed to constitute an inseparable part of the school district. Therefore, the assets, liabilities, equity, revenues, expenditures and other financing sources/uses of the trust accounts created by this trust agreement are part of the school district's financial statements, thereby eliminating the effects of the lease agreement for financial reporting purposes.

REQUIRED SUPPLEMENTARY INFORMATION

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QUITMAN 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
Revenues:					
Local sources	\$ 2,577,013	\$ 2,908,090	\$ 2,908,090	\$ (331,077)	\$ -
State sources	9,175,831	9,733,665	9,733,665	(557,834)	-
Federal sources	98,169	129,766	129,766	(31,597)	-
Total Revenues	<u>11,851,013</u>	<u>12,771,521</u>	<u>12,771,521</u>	<u>(920,508)</u>	<u>-</u>
Expenditures:					
Instruction	8,155,539	7,517,494	7,517,495	(638,045)	1
Support services	5,346,563	5,775,076	5,775,076	428,513	-
Facilities acquisition and construction	345,000	2,043	2,043	(342,957)	-
Debt service:					
Principal	35,574	10,924	10,924	(24,650)	-
Total Expenditures	<u>13,882,676</u>	<u>13,305,537</u>	<u>13,305,538</u>	<u>(577,139)</u>	<u>1</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(2,031,663)</u>	<u>(534,016)</u>	<u>(534,017)</u>	<u>(1,497,647)</u>	<u>1</u>
Other Financing Sources (Uses):					
Insurance Loss Recoveries	-	513,254	513,254	(513,254)	-
Operating transfers in	2,161,872	2,172,047	2,172,047	(10,175)	-
Other financing sources	-	950	950		
Operating transfers out	(1,894,366)	(1,796,222)	(2,314,554)	(98,144)	518,332
Total Other Financing Sources (Uses)	<u>267,506</u>	<u>890,029</u>	<u>371,697</u>	<u>(621,573)</u>	<u>518,332</u>
Net Change in Fund Balances	(1,764,157)	356,013	(162,320)	(2,119,220)	518,333
Fund Balances:					
July 1, 2005	<u>4,982,987</u>	<u>4,982,987</u>	<u>4,982,987</u>	<u>-</u>	<u>-</u>
June 30, 2006	<u>\$ 3,218,830</u>	<u>\$ 5,339,000</u>	<u>\$ 4,820,667</u>	<u>\$ (2,119,220)</u>	<u>\$ 518,333</u>

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

QUITMAN SCHOOL DISTRICT
Notes to the Required Supplementary Information
For the Year Ended June 30, 2005

Budgetary Comparison Schedule

(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 amendment 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, 2006. A budgetary comparison is presented for the general fund and each major special revenue fund consistent with accounting principles generally accepted in the United States of America.

(3) Individual Fund Disclosures.

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

The funds with an excess of expenditures over budget are not a violation of state law.

<u>Individual Fund</u>	<u>Amount</u>
General Fund	<u>\$ 518,333</u>

SUPPLEMENTARY INFORMATION

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QUITMAN SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	\$ 74,423
Child Nutrition Cluster:		
School breakfast program	10.553	225,943
National school lunch program	10.555	597,320
Total child nutrition cluster		<u>823,263</u>
Total U.S. Department of Agriculture		<u>897,686</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The school s and library program of the universal service fund	32.XXX	34,882
Total Federal Communications Commission		<u>34,882</u>
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	942,317
Vocational education - basic grants to states	84.048	31,935
Safe and drug-free schools and communities - state grants	84.186	28,268
State grants for innovative programs	84.298	10,721
Education technology state grants	84.318	15,197
Improving teacher quality - state grants	84.367	216,302
Grants for state assessments and related activities	84.369	14,355
Rural education	84.358	72,795
Hurricane education recovery-emergency impact aid	84.938	303,863
Total		<u>1,635,753</u>
Special education cluster:		
Special education - grants to states	84.027	460,681
Special education - preschool grants	84.173	29,890
Total special education cluster		<u>490,571</u>
Total passed-thru Mississippi Department of Education		<u>2,126,324</u>
Total U.S. Department of Education		<u>2,126,324</u>

Federal Grantor/
 Pass-through Grantor/
Program Title

Catalog of
 Federal Domestic
 Assistance Number

Federal
 Expenditures

U.S. Department of Homeland Security

Passed-through the Mississippi Emergency Management Assistance:

Disaster Grants-Public assistance grants	97.036	36,270
Total U.S. Department of Homeland Security		36,270
Total for All Federal Awards		\$ 3,095,162

NOTES TO SCHEDULE

1. This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for financial statements.
2. The expenditure amounts include transfers out.
3. The pass-through entities did not assign identifying numbers to the school district.
4. The balance outstanding at June 30, 2006, of the loan received in a previous fiscal year under former CFDA #66.702 for asbestos removal was \$60,085.

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

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other Student Instructional Expenditures</u>	<u>General Administration</u>	<u>School Administration</u>	<u>Other</u>
Salaries and fringe benefits	\$ 13,198,936	9,827,536	536,137	828,939	2,006,324
Other	4,363,959	1,109,782	281,189	14,976	2,958,012
Total	\$ 17,562,895	10,937,318	817,326	843,915	4,964,336
Total number of students *	2,281				
Cost per student \$	7,700	4,795	358	370	2,176

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

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REPORTS ON COMPLIANCE AND INTERNAL CONTROL

Stephen D. Myrick C.P.A., L.L.C.

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

Superintendent and School Board
Quitman School District

I have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Quitman School District as of and for the year ended June 30, 2006, which collectively comprise the Quitman School District's basic financial statements and have issued my report thereon dated October 17, 2006. I conducted my 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 my audit, I considered the school district's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. My 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 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. I did not note any matters involving internal control over financial reporting and its operation that I consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, I 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 my audit and, accordingly I do not express such an opinion. The results of my tests did not disclose any instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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



Stephen D. Myrick
Certified Public Accountant

October 17, 2006
Quitman, Mississippi

Stephen D. Myrick C.P.A., L.L.C.

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

Superintendent and School Board
Quitman School District

Compliance

I have audited the compliance of the Quitman 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. My responsibility is to express an opinion on the school district's compliance based on my audit.

I conducted my 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 I 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 I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the school district's compliance with those requirements.

In my opinion, Quitman 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 Quitman 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 my audit, I 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 my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

My 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 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. I did not note any matters involving internal control over compliance and its operation that I 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.



Stephen D. Myrick
Certified Public Accountant

October 17, 2006
Quitman, Mississippi

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

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Stephen D. Myrick C.P.A., L.L.C.

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

Superintendent and School Board
Quitman School District

I have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Quitman School District as of and for the year ended June 30, 2006 which collectively comprise Quitman School District's basic financial statements and have issued my report thereon dated October 17, 2006. I conducted my 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, I have also performed procedures to test compliance with certain state laws and regulations. However, providing an opinion on compliance with state laws and regulations was not an objective of my audit and, accordingly, I do not express such an opinion.

The results of my 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 \$2,645 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 my 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 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.



Stephen D. Myrick
Certified Public Accountant

October 17, 2006
Quitman, Mississippi

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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QUITMAN SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended June 30, 2004

Section 1: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

- | | | |
|----|--|-------------|
| 4. | Type of 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? | No |
| 6. | Audit finding(s) reported as required by Section __.510(a) of OMB Circular A-133? | No |
| 7. | Federal programs identified as major programs: | |
| a. | Title I – grants to local education agencies
CFDA #: 84.010 | |
| b. | Hurricane education recovery act programs –
emergency impact aid
CFDA #: 84.938C | |
| 8. | The dollar threshold used to distinguish between Type A and Type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | Yes |

QUITMAN SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2004

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

Section 2: Financial Statement Findings

The results of my tests did not disclose any findings and questioned costs related to the financial statements.

Section: Federal Award Findings and Questioned Costs

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

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS



104 East Franklin Street
Quitman, MS 39355
601-776-2186
FAX 601-776-1051

Quitman School District

MEMORANDUM

TO: Dr. Suzanne Hawley
FROM: Wendy Tucker
RE: Prior Year Audit Findings
DATE: December 5, 2006

Listed below please find a Summary Schedule of Prior Year Audit Findings from the FY2005 audit.

Finding 05-1 Corrective action was taken.

If you have any questions concerning this information, please let me know.

Suzanne C. Hawley, Ed. D., Superintendent ♦ Pamela D. Compton, Ed. D., Asst. Superintendent/Personnel ♦ Wendy C. Tucker, Child Nutrition
Karen E. Chisolm, Curriculum ♦ Elisa A. Mayo, Finance ♦ Joe Edwards, Transportation ♦ Ronnie G. Cook, Maintenance
Greg Fleming, 16th Section/Testing ♦ John Korzenko, Technology ♦ Steven C. Hampton, Activities/Athletic Director