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SOUTH PIKE SCHOOL DISTRICT

**Audited Financial Statements
For the Year Ended June 30, 2006**

SOUTH PIKE SCHOOL DISTRICT
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McDaniel CPA Firm
Certified Public Accountant / Financial Consultant

Scotty McDaniel, CPA

MEMBER

Mississippi Society
of Certified Public
Accountants

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

April 21, 2007

Superintendent and School Board
South Pike School District

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to 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 South Pike School District, as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2007, on our consideration of the South Pike School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages (3) through (11) and the Budgetary Comparison Schedule and

corresponding notes on pages (34) through (37) are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

McDaniel CPA Firm

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

FINANCIAL HIGHLIGHTS

- Total net assets increased \$1,019,644, which represents a 9% increase from fiscal year 2005. This increase in net assets is primarily due to the following: 1) the receipt of approximately \$690,000 in federal funds under the Displaced Students Grant which resulted from Hurricane Katrina, 2) capital outlays of \$224,428 during the fiscal year were not reported as expenses in the Statement of Activities but were capitalized on the Statement of Net Assets, and 3) repayment of debt principal in the amount of \$337,915 was not reported as an expense in the Statement of Activities but as a reduction of long-term liabilities on the Statement of Net Assets.
- General revenues account for \$12,604,748 in revenue, or 71% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$5,190,232, or 29% of total revenues.
- The District had \$16,775,336 in expenses; only \$5,190,232 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$12,604,748 were adequate to provide for these programs.
- Among major funds, the General Fund had \$11,320,782 in revenues and \$11,161,514 in expenditures. After net other financing sources of \$353,204, the net change in the fund balance of the General Fund was an increase of \$512,472 from the previous fiscal year. This increase is due primarily to the receipt of approximately \$690,000 in federal funds under the Displaced Students Grant which resulted from Hurricane Katrina. A portion of salary related expenditures normally incurred in the General Fund were reported in the Displaced Students Grant Fund and federal sources were received to cover those expenditures.
- Capital assets, net of accumulated depreciation, decreased by \$128,089.
- Long-term debt decreased by \$370,762.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

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

The government-wide financial statements can be found on pages 12 - 13 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.

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

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 15 and 17, respectively, of this report.

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 14 -17 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The school district's fiduciary activities are presented in a separate Statement of Fiduciary Net Assets on page 18.

Notes to the financial statements. The notes provide additional information that is essential to have a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19 - 33 of this report.

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major special revenue fund. This required supplementary information can be found on pages 34 -37 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and a schedule of instructional, administrative and other expenditures for governmental funds can be found on pages 38 -39, respectively, of this report.

SOUTH PIKE 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 a government's financial position. In the case of the District, assets exceeded liabilities by \$12,204,636 as of June 30, 2006.

The district's net assets are comprised of 1) net assets invested in capital assets, net of related debt, 2) restricted net assets and 3) unrestricted net assets. \$5,670,624 of the District's net assets (46%) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment and leased property under capital leases), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending. \$2,347,931 of the District's net assets (19%) reflects its restricted net assets. A portion of the restricted net assets is expendable for school based activities, debt service, forestry improvements and unemployment benefits. The remaining portion of the restricted net assets is nonexpendable for 16th section investment purposes and scholarships. \$4,186,081 of the District's net assets (35%) reflects its unrestricted net assets.

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

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

	Net Assets		Percentage Change
	June 30, 2006	June 30, 2005	
Current Assets	6,369,550	5,898,016	7.99%
Restricted Assets	503,866	820,589	-38.60%
Capital Assets, Net	7,150,001	7,278,090	-1.76%
Total Assets	14,023,417	13,996,695	0.19%
Current Liabilities	239,733	861,893	-72.19%
Long-term debt outstanding	1,579,048	1,949,810	-19.02%
Total Liabilities	1,818,781	2,811,703	-35.31%
Net Assets:			
Invested in capital assets, net of related debt	5,670,624	5,460,798	3.84%
Restricted	2,347,931	2,164,291	8.48%
Unrestricted	4,186,081	3,559,903	17.59%
Total Net Assets	12,204,636	11,184,992	9.12%

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

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

- Current assets increased from the previous fiscal year due primarily to an increase in amounts due from other governments. At fiscal year end, the District reported a receivable (due from federal sources) related to the Displaced Students Grant which was a result of Hurricane Katrina.
- Current liabilities decreased from the previous fiscal year due primarily to a decrease in accounts payable and accrued liabilities.
- Long-term debt outstanding decreased from the previous fiscal year due primarily to principal payments made during the fiscal year on existing long-term debt.
- Net assets invested in capital assets, net of related debt, increased from the previous fiscal year due primarily to the reduction in long-term debt related to the capital assets.
- Restricted net assets increased from the previous fiscal year due primarily to an increase in amounts restricted for school based activities and sixteenth section purposes.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2006 were \$17,794,980. The total cost of all programs and services was \$16,775,336. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2006 and 2005, respectively.

	Change in Net Assets		Percentage Change
	June 30, 2006	June 30, 2005	
Revenues:			
Program Revenues:			
Charges for Services	\$ 441,758	\$ 294,766	49.87%
Operating grants and contributions	4,748,474	3,857,653	23.09%
General revenues:			
Property taxes	2,912,925	2,905,551	0.25%
Grants and contributions not restricted	8,649,030	9,166,578	-5.65%
Other	1,042,793	450,300	131.58%
Total revenues	17,794,980	16,674,848	6.72%
Expenses:			
Instruction	9,264,432	8,193,127	13.08%
Support Services	6,327,221	6,079,931	4.07%
Non-instructional	1,098,161	1,154,812	-4.91%
Sixteenth Section	57,984	26,376	119.84%
Interest and other expense on long-term liabilities	27,538	67,911	-59.45%
Total expenses	16,775,336	15,522,157	8.07%
Increase (Decrease) in net assets	1,019,644	1,152,691	-11.54%
Net Assets, July 1	11,184,992	10,032,301	11.49%
Net Assets, June 30	\$ 12,204,636	\$ 11,184,992	9.12%

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

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

- Program revenues increased from the previous fiscal year due primarily to an increase in operating grants and contributions, specifically the Displaced Students Grant in the amount of \$690,000 resulting from Hurricane Katrina.
- General revenues increased from the previous fiscal year due primarily to an increase in sixteenth section sources (other general revenues). During the fiscal year, sixteenth section revenue was generated primarily from the sale of timber, sixteenth section leases, oil and gas royalties and pro rata revenue from other school districts.
- Instruction expenses increased from the previous fiscal year due primarily to the 8% increase in teacher salaries.

Governmental activities. The following table presents the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section and interest and other expenses on long-term debt for fiscal years ending June 30, 2006 and 2005, respectively. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and District's taxpayers by each of these functions.

	2006		2005	
	Total Expenses	Net(Expense) Revenue	Total Expenses	Net(Expense) Revenue
Instruction	\$ 9,264,432	\$ (6,474,058)	\$ 8,193,127	\$ (6,264,441)
Support Services	6,327,221	(4,956,828)	6,079,931	(4,893,390)
Non-instructional	1,098,161	(141,021)	1,154,812	(117,620)
Sixteenth Section	57,984	14,341	26,376	(26,376)
Interest and other expenses on long-term liabilities	27,538	(27,538)	67,911	(67,911)
Total expenses	\$ 16,775,336	\$ (11,585,104)	\$ 15,522,157	\$ (11,369,738)

- The net cost of governmental activities for fiscal year 2006 in the amount of \$11,585,104 was financed by general revenue, which is made up of primarily property taxes of \$2,912,925 and state revenue of \$8,621,529.
- Investment earnings accounted for \$231,371 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.

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed fiscal year June 30, 2006, its governmental funds reported a combined fund balance of \$6,651,790. The net change in fund balance for the fiscal year was an increase of \$787,236 due primarily to the receipt of federal funds under the Displaced Students Grant. \$5,065,794, or 76%, of the fund balance is reported by fund type in the unreserved, undesignated section of the Governmental Funds Balance Sheet. The portion of the fund balance reported in the General Fund is available for spending at the District's discretion. The portion of the fund balance reported in the Special Revenue Funds will be used for school based activities. The remaining fund balance of \$1,585,996, or 24%, is reserved or designated to indicate that it is not available for spending because it has already been committed. This portion of the fund balance is reserved for inventory, unemployment benefits, forestry improvements, capital project purposes, debt service purposes and permanent fund purposes.

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 \$512,472, a result of reclassification of a portion of salary related expenditures to the Displaced Students Grant Fund which resulted from Hurricane Katrina and transfers in primarily from the Sixteenth Section Interest Funds. The fund balance of Other Governmental Funds showed an increase of \$274,682 due primarily to the excess of revenues over expenditures in various funds.

BUDGETARY HIGHLIGHTS

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

- Budgeted amounts for instruction and support services expenditures in the Displaced Students Grant Fund were increased during the fiscal year. Revenue and expenditures related to this grant were a result of Hurricane Katrina and were not included in the original budget.

A schedule showing the original and final budget amounts compared to the District's actual financial activity for the General Fund and other major special revenue 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, before depreciation, were \$11,896,449, including land, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment and leased property under capital leases.

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

This amount represents a gross increase of \$208,898 from the previous year. During the fiscal year, the District purchased three new school buses, a truck and various items of furniture and equipment. The District also disposed of items of furniture and equipment. Total depreciation expense for the year was \$349,375. Total accumulated depreciation as of June 30, 2006 was \$4,746,448, resulting in total net capital assets of \$7,150,001.

	Capital Assets, Net of Depreciation		Percentage Change
	2006	2005	
Land	159,989	159,989	0.0%
Buildings	4,297,273	4,420,882	-2.8%
Buildings improvements	917,038	954,111	-3.9%
Improvements other than buildings	34,564	37,223	-7.1%
Mobile equipment	1,044,287	984,118	6.1%
Furniture and equipment	535,850	553,767	-3.2%
Leased property under capital leases	161,000	168,000	-4.2%
Total	7,150,001	7,278,090	-1.8%

Additional information of the District's capital assets can be found in Note 5 on page 28 of this report.

Debt Administration. At June 30, 2006, the District had \$1,579,048 in general obligation bonds and other long-term debt outstanding, of which \$351,907 is due within one year. During the fiscal year, the District made principal payments in the amount of \$337,915 on existing long-term debt.

	Outstanding Debt		Percentage Change
	2006	2005	
General obligation bonds payable	240,000	350,000	-31.4%
Three mill notes payable	613,217	807,834	-24.1%
Obligations under capital leases	126,160	159,458	-20.9%
Qualified zone academy bonds payable	500,000	500,000	0.0%
Compensated absences payable	99,671	132,518	-24.8%
Total	1,579,048	1,949,810	-19.0%

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

CURRENT ISSUES

The South Pike School District is financially stable. The District is proud of its community support of the public schools.

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

The District has committed itself to financial excellence for many years. The millage rate has not increased or decreased significantly over the past several years. The District's system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

Latest enrollment figures indicate that student enrollment in the District has not increased or decreased significantly over the past several years.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the South Pike School District, P. O. Box 71 or 250 West Bay Street, Magnolia, MS 39652.

BASIC FINANCIAL STATEMENTS

SOUTH PIKE SCHOOL DISTRICT
Statement of Net Assets
June 30, 2006

Exhibit A

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
Assets:	
Cash and cash equivalents	\$ 5,182,578
Due from other governments	1,172,431
Inventories and prepaid items	14,541
Restricted assets	503,866
Capital assets, not being depreciated	
Land	159,989
Capital assets, net of accumulated depreciation:	
Buildings	4,297,273
Building Improvements	917,038
Improvements other than buildings	34,564
Mobile equipment	1,044,287
Furniture and equipment	535,850
Leased property under capital leases	161,000
Total assets	<u>14,023,417</u>
Liabilities:	
Accounts payable and accrued liabilities	219,103
Due to other governments	2,523
Interest payable on long-term liabilities	18,107
Long-term liabilities, due within one year	
Capital related liabilities	348,917
Non-capital related liabilities	2,990
Long-term liabilities, due beyond one year	
Capital related liabilities	1,130,460
Non-capital related liabilities	96,681
Total liabilities	<u>1,818,781</u>
Net Assets:	
Investments in capital assets (net of related debt)	5,670,624
Restricted net assets:	
Expendable:	
School-based activities	1,302,271
Debt service	295,065
Forestry Improvements	246,165
Unemployment benefits	31,785
Non-expendable:	
Sixteenth section	467,430
Other	5,215
Unrestricted	4,186,081
Total net assets	<u>12,204,636</u>
Total liabilities and net assets	<u>\$ 14,023,417</u>

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

SOUTH PIKE SCHOOL DISTRICT
 Statement of Activities
 For the Year Ended June 30, 2006

Exhibit B

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Governmental Activities:				
Instruction	\$ 9,264,432	2,489,172	-	\$ (6,474,058)
Support Services	6,327,221	1,370,393	-	(4,956,828)
Non-Instructional	1,098,161	888,909	-	(141,021)
Sixteenth section	57,984	-	-	14,341
Interest on long-term liabilities	27,538	-	-	(27,538)
Total governmental activities	\$ 16,775,336	4,748,474	-	(11,585,104)
General Revenues:				
Taxes:				
				2,604,253
				308,672
Unrestricted grants and contributions:				
				8,621,529
				27,501
				231,371
				678,512
				132,910
				12,604,748
Change in Net Assets				1,019,644
Net Assets - Beginning - restated				11,184,992
Net Assets - Ending				\$ 12,204,636

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

SOUTH PIKE SCHOOL DISTRICT
 Balance Sheet - Governmental Funds
 June 30, 2006

Exhibit C

	Major Funds				Total Governmental Funds
	General Fund	Title I - A Basic Fund	Displaced Students Grant Fund	Other Governmental Funds	
ASSETS					
Cash and cash equivalents	\$ 2,736,005	\$ 3,250	\$ -	\$ 2,910,753	\$ 5,650,008
Cash with fiscal agent				436	436
Investments				36,000	36,000
Due from other government	203,022	141,375	691,823	136,211	1,172,431
Due from other funds	958,102				958,102
Inventories and prepaid items				14,541	14,541
Total Assets	3,897,129	144,625	691,823	3,097,941	7,831,518
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	105,658	782		112,683	219,103
Due to other funds	13,407	141,375	691,823	114,020	960,625
Total Liabilities	119,065	142,137	691,823	226,703	1,179,728
Fund Balances:					
Reserved for:					
Inventory				14,541	14,541
Capital Projects				31,785	31,785
Debt service				246,165	246,165
Unemployment benefits				507,688	507,688
Forestry improvement purposes				313,172	313,172
Permanent fund purposes				472,845	472,845
Unreserved:					
Undesignated, reported in:					
General fund	3,778,064				3,778,064
Special revenue funds		2,488		1,285,242	1,287,730
Total Fund Balances	3,778,064	2,488	-	2,871,238	6,651,790
Total Liabilities and Fund Balances	\$ 3,897,129	\$ 144,625	\$ 691,823	\$ 3,097,941	\$ 7,831,518

SOUTH PIKE 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	\$ 6,651,790
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 \$ 4,746,448.	7,150,001
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(1,579,048)
3. Governmental funds recognize interest on long-term debt when it becomes due, however the Statement of Net Assets recognizes interest as it accrues.	(18,107)
Total net assets - governmental activities	<u>\$ 12,204,636</u>

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

Exhibit D

	Major Funds				Total Governmental Funds
	General Fund	Title I - A Basic Fund	Displaced Students Grant Fund	Other Governmental Funds	
Revenues:					
Local sources	\$ 2,755,538	122	-	751,184	\$ 3,506,844
State sources	8,484,208	-	-	690,188	9,154,396
Federal sources	101,036	1,154,623	691,823	2,295,626	4,243,108
Sixteenth section sources	-	-	-	813,845	813,845
Total Revenues	11,320,782	1,154,745	691,823	4,550,843	17,718,193
Expenditures:					
Instruction	6,408,749	526,070	624,027	1,570,513	9,129,359
Support services	4,714,321	459,859	67,796	1,034,871	6,276,847
Noninstructional services	-	50,806	-	989,330	1,040,136
Sixteenth section	-	-	-	57,984	57,984
Facilities acquisition and construction	-	-	-	98,845	98,845
Debt services:					
Principal	33,298	-	-	304,617	337,915
Interest	5,146	-	-	28,093	33,239
Other	-	-	-	440	440
Total Expenditures	11,161,514	1,036,735	691,823	4,084,693	16,974,765
Excess (deficiency) of revenues over expenditures	159,268	118,010	-	466,150	743,428
Other Financing Sources: (Uses)					
Insurance loss recoveries	76,787	-	-	-	76,787
Operating transfers in	560,860	-	-	237,048	797,908
Operating transfers out	(251,464)	(117,928)	-	(428,516)	(797,908)
Other financing uses	(32,979)	-	-	-	(32,979)
Total Other Financing Sources (Uses)	353,204	(117,928)	-	(191,468)	43,808
Net change in fund balances	512,472	82	-	274,682	787,236
Fund Balances:					
July 1, 2005	3,265,592	2,406	-	2,612,962	5,880,960
(Decrease) in reserve for inventory	-	-	-	(16,406)	(16,406)
June 30, 2006	\$ 3,778,064	2,488	-	2,871,238	\$ 6,651,790

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

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

Exhibit D-1

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ 787,236
Amounts reported for governmental activities in the Statement of Activities are different because:	
1 Governmental funds report capital outlays as expenditures while the governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchase amounted to \$ 224,428 and the depreciation expense amounted to \$ 349,375.	(124,947)
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.	337,915
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.	6,141
4 Gains and losses on the sale or disposals of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds.	(3,142)
5 Increase (decrease) in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are (decreased) increased in the Statement of Activities.	(16,406)
6 Expenses in the Statement of Activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds:	
Compensated absences	32,847
Change in net assets of governmental activities	<u>\$ 1,019,644</u>

**SOUTH PIKE SCHOOL DISTRICT
Statement of Fiduciary Net Assets
June 30, 2006**

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 23,684
Due from other funds	2,523
Due from other governments	3,093
Total Assets	<u>29,300</u>
Liabilities	
Due to student clubs	29,300
Total Liabilities	<u>\$ 29,300</u>

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

NOTES TO FINANCIAL STATEMENTS

SOUTH PIKE SCHOOL DISTRICT

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

(1) Summary of Significant Accounting Policies.

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

A. Financial Reporting Entity.

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

B. Basis of Presentation.

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

Government-Wide Financial Statements:

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

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

Fund Financial Statements:

Fund financial statements of the school district are organized in 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.

SOUTH PIKE SCHOOL DISTRICT

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

C. Measurement Focus and Basis of Accounting.

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

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

The school district reports the following major governmental funds:

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

Title I - A Basic Fund - This is a Special Revenue Fund that accounts for the revenue received under the Title I grants to local education agencies program and expenditures incurred as allowed by the program.

Displaced Students Grant Fund - This is a Special Revenue Fund that accounts for revenue received and expenditures incurred associated with the instruction of displaced students resulting from Hurricane Katrina.

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

Additionally the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

SOUTH PIKE SCHOOL DISTRICT

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

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

FIDUCIARY FUNDS

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

D. Account Classifications.

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

E. Encumbrances.

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

F. Cash and Cash Equivalents.

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

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

G. Investments.

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

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

Investments are reported at fair value.

H. Inventories and Prepaid Items.

Donated 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 cost of such items are accounted for as expenditures in the period of acquisition.

SOUTH PIKE SCHOOL DISTRICT

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

I. Capital Assets.

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

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

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

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

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

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

J. Long-term liabilities.

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

K. Interfund Transactions and Balances.

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

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

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

SOUTH PIKE SCHOOL DISTRICT

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

unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

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

L. Equity Classifications.

Government-wide Financial Statements:

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

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

Fund Financial Statements:

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved 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 that portion of fund balance in the Capital Projects Fund which was legally restricted and not available for spending for any other purpose than that for which it was restricted.

Reserved for debt service – 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 which it is restricted.

Reserved for unemployment benefits – An account that represents the fund balance of the unemployment compensation revolving fund which is legally restricted for the payment of unemployment benefits.

Reserved for forestry improvements – An account that represents the fund balance of the sixteenth section forestry escrow fund which is legally restricted for improvements to sixteenth section forest lands.

SOUTH PIKE SCHOOL DISTRICT

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

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

M. Property Taxes.

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

N. Mississippi Adequate Education Program Revenues.

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

O. Compensated Absences.

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

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

(2) Changes in Accounting Standards.

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

(3) Cash and Cash Equivalents, Cash with Fiscal Agents, and Investments.

The district follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Restrictions on deposits and investments are imposed by statutes as follows:

SOUTH PIKE SCHOOL DISTRICT

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

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.

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 can be credited to the General Fund.

Cash and Cash Equivalents

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$ 5,650,008, and \$ 23,684, respectively. The carrying amount of deposits reported in the government-wide statements was: cash and cash equivalents \$ 5,182,578 and restricted assets \$ 503,866. The restricted assets of \$ 467,430 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 \$ 6,761,915.

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 the 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 \$ 6,761,915 was exposed to custodial credit risk.

Cash With Fiscal Agents

SOUTH PIKE SCHOOL DISTRICT

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

The carrying amount of school districts' cash with fiscal agents held by financial institutions was \$ 436.

Investments

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

<u>Investment Type</u>	<u>Maturities (in years)</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Standard & Poor's Rating</u>
U.S. Agency Obligations	less than 1	\$ 36,000	36,000	AAA
<i>Total Investments</i>		<u>\$ 36,000</u>	<u>36,000</u>	

Investments reported in the QZAB Debt Retirement Fund are legally restricted and may not be used for purposes that support the district's programs. Therefore, the carrying amount of investments in this fund in the amount of \$ 36,000 is included in Restricted Assets in the government-wide financial statements.

Interest Rate Risk

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

Credit Risk

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

Custodial Credit Risk – Investments

Custodial credit risk is defined as the risk that, in the event of a financial institutions failure, the district will not be able to recover the value of its investments. The district does not have a formal investment policy that addresses custodial credit risk. As of June 30, 2006, the district's investment balance was not exposed to custodial credit risk.

Concentration of Credit Risk

Disclosures of investments by amount and issuer for any issuer that represents five percent (5%) or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2006, the district had the following investments:

SOUTH PIKE SCHOOL DISTRICT

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

<u>Issuer</u>	<u>Fair Value</u>	<u>% of Total Investments</u>
Federal National Mortgage Association	\$ 36,000	100%
Total	<u>\$ 36,000</u>	

(4) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

	<u>Due From</u>	<u>Due To</u>
Major Funds:		
General Fund	\$ 958,102	13,407
Title I - A Basic Fund		141,375
Displaced Student Grant Fund		691,823
Other Governmental Funds		114,020
Fiduciary Funds	2,523	
Total	<u>\$ 960,625</u>	<u>\$ 960,625</u>

The purpose of the interfund loans was to cover federal funds not received prior to year-end.

B. Transfers In/Out:

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Funds:		
General Funds	\$ 560,860	251,464
Title I - A Basic Funds		117,928
Other Governmental Funds	237,048	428,516
Total	<u>\$ 797,908</u>	<u>797,908</u>

The principal purpose of interfund loans was to provide funds to pay for debt service payments or to provide funds for daily operations. All interfund transfers were routine and consistent with the activities of the fund making the transfer.

SOUTH PIKE SCHOOL DISTRICT

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

(5) Capital Assets.

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

	<u>Balance</u> <u>7/1/2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Completed</u> <u>Construction</u>	<u>Adjustments</u>	<u>Balance</u> <u>6/30/2006</u>
Non-depreciable capital assets:						
Land	\$ 159,989					\$ 159,989
Total non-depreciable capital assets	159,989	-	-	-	-	159,989
Depreciable capital assets:						
Buildings	7,019,256					7,019,256
Building improvements	991,184					991,184
Improvements other than buildings	66,470					66,470
Mobile equipment	1,818,018	205,831				2,023,849
Furniture and equipment	1,457,634	18,597	15,530			1,460,701
Leased property under capital leases	175,000					175,000
Total depreciable capital assets	11,527,562	224,428	15,530	-	-	11,736,460
Less accumulated depreciation for:						
Buildings	2,598,374	123,609				2,721,983
Building improvements	37,073	37,073				74,146
Improvements other than buildings	29,247	2,659				31,906
Mobile equipment	833,900	145,662				979,562
Furniture and equipment	903,867	33,372	12,388			924,851
Leased property under capital leases	7,000	7,000				14,000
Total accumulated depreciation	4,409,461	349,375	12,388	-	-	4,746,448
Total depreciable capital assets, net	7,118,101	(124,947)	3,142	-	-	6,990,012
Governmental activities capital assets, net	\$ 7,278,090	(124,947)	3,142	-	-	\$ 7,150,001

Depreciation expense was charged to the following governmental functions:

SOUTH PIKE SCHOOL DISTRICT

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

	<u>Amount</u>
Instruction	\$ 123,451
Support services	182,663
Non-instructional	43,261
 Total depreciation expense	 <u>\$ 349,375</u>

(6) Long-term liabilities.

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

	<u>Balance</u> <u>7-1-2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6-30-2006</u>	<u>Amounts due</u> <u>within one</u> <u>year</u>
A. General obligation bonds payable	\$ 350,000	\$ -	\$ 110,000	\$ 240,000	\$ 115,000
B. Three mill - ten year notes payable	807,834	-	194,617	613,217	199,434
C. Obligation under capital lease	159,458	-	33,298	126,160	34,483
D. Qualified zone academy bonds payable	500,000	-	-	500,000	-
E. Compensated absences payable	132,518	-	32,847	99,671	2,990
Total	<u>\$ 1,949,810</u>	<u>\$ -</u>	<u>\$ 370,762</u>	<u>\$ 1,579,048</u>	<u>\$ 351,907</u>

A. General obligation bonds payable.

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

<u>Description</u>	<u>Interest</u> <u>Rate</u>	<u>Issue</u> <u>Date</u>	<u>Maturity</u> <u>Date</u>	<u>Amount</u> <u>Issued</u>	<u>Amount</u> <u>Outstanding</u>
General obligation bonds Series 1998	4.0% - 4.5%	3/1/1998	3/1/2008	\$ 1,000,000	240,000
Total				<u>\$ 1,000,000</u>	<u>240,000</u>

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

SOUTH PIKE SCHOOL DISTRICT

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

Year Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	115,000	10,200	125,200
2008	<u>125,000</u>	<u>5,313</u>	<u>130,313</u>
Total	<u>\$ 240,000</u>	<u>\$ 15,513</u>	<u>\$ 255,513</u>

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

B. Three mill – ten year notes payable.

Debt currently outstanding is 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>
3 mill notes payable	2.48%	9/19/2003	8/15/2008	\$ 1,000,000	613,217
Total				<u>\$ 1,000,000</u>	<u>613,217</u>

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

Year Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	199,434	15,177	214,611
2008	204,370	10,241	214,611
2009	<u>209,413</u>	<u>5,197</u>	<u>214,610</u>
Total	<u>\$ 613,217</u>	<u>\$ 30,615</u>	<u>\$ 643,832</u>

This debt will be retired from the EEF Buildings and Buses Fund and the Three Mill Notes Retirement Fund.

SOUTH PIKE SCHOOL DISTRICT

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

C. Obligations under capital leases.

The school district has entered into a lease agreement that qualifies as a capital lease for accounting purposes. Leased property under this lease is composed of lighting upgrades at the school facilities.

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

Year Ending June 30	Principal	Interest	Total
2007	34,483	4,152	38,635
2008	35,711	2,924	38,635
2009	36,983	1,652	38,635
2010	18,983	335	19,318
Total	<u>\$ 126,160</u>	<u>9,063</u>	<u>135,223</u>

This debt will be retired from the District Maintenance Fund.

The school district uses the straight-line method of amortization for the lease payments which is not in accordance with accounting principles generally accepted in the United States of America. However, the difference between the effective interest method and the straight-line method is not considered material.

D. Qualified zone academy bonds payable.

As more fully explained in Note 10, debt has been issued by the school district that qualifies as Qualified Zone Academy bonds. Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Qualified zone academy bonds	0%	1/15/2005	10/13/2014	<u>\$ 500,000</u>	<u>500,000</u>
Total				<u>\$ 500,000</u>	<u>500,000</u>

E. Compensated absences payable.

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

(7) Defined Benefit Pension Plan.

Plan Description. The school district contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost sharing, multiple-employer, defined benefit pension plan. PERS

SOUTH PIKE SCHOOL DISTRICT

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

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 Employee's Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, Mississippi 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 9.75% 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 \$ 993,121, \$ 854,173, and \$ 788,787, respectively, which equaled the required contributions for each year.

(8) Sixteenth Section Lands.

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

Year Ending June 30	Amount
2007	23,186
2008	22,337
2009	13,620
2010	11,463
2011	8,915
2012-2016	4,286
2017-2021	1,596
2022-2026	956
2027-2031	591
Thereafter	1,500
Total	\$ 88,450

(9) 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

SOUTH PIKE SCHOOL DISTRICT

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

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 cover risks of loss arising from injuries to the school district employees. The Mississippi Worker's 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 the 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.

(10) Qualified Zone Academy Bonds.

Section 226 of the Taxpayer Relief Act of 1997 (Public Law 105-34) provides for a source of capital at no or nominal interest rates for costs incurred by certain public schools in connection with the establishment of special academic programs from kindergarten through secondary school, in partnership with the business community. The school district, in agreement with Trustmark National Bank and Hancock Bank, has entered into such an agreement dated January 15, 2005.

This agreement establishes a method of repayment for a qualified interest-free debt instrument. The agreement requires the school district to deposit funds annually into a sinking fund account on or before October 16. The amount accumulated in the sinking fund at the end of the ten-year period will be sufficient to retire the debt. The following schedule reports the yearly deposits to be made to the sinking fund by the school district.

<u>June 30</u>	<u>Amount</u>
2007	35,000
2008	35,000
2009	175,000
2010	<u>74,475</u>
Total	<u>\$ 319,475</u>

REQUIRED SUPPLEMENTARY INFORMATION

SOUTH PIKE SCHOOL DISTRICT
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2006

Schedule 1

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	2,755,635	2,755,635	2,755,538	-	(97)
State sources	8,277,763	8,338,918	8,464,208	61,155	125,290
Federal sources	900,359	900,359	101,036	-	(799,323)
Total Revenues	11,933,757	11,994,912	11,320,782	61,155	(674,130)
Expenditures:					
Instruction	7,060,011	7,163,632	6,408,749	(103,621)	754,883
Support services	5,717,135	5,860,290	4,714,321	(143,155)	1,145,969
Noninstructional services	-	227	-	(227)	227
Facilities acquisition and construction	-	-	-	-	-
Debt service:					
Principal	33,298	33,298	33,298	-	-
Interest	5,337	5,337	5,146	-	191
Other	-	-	-	-	-
Total Expenditures	12,815,781	13,062,784	11,161,514	(247,003)	1,901,270
Excess (deficiency) of revenues over expenditures	(882,024)	(1,067,872)	159,268	(185,848)	1,227,140
Other Financing Sources (Uses)					
Insurance loss recoveries	-	-	76,787	-	76,787
Operating transfers in	451,448	491,253	560,860	39,805	69,607
Operating transfers out	(177,548)	(253,548)	(251,464)	(76,000)	2,084
Other financing uses	-	(32,979)	(32,979)	(32,979)	-
Total Other Financing Sources (Uses)	273,900	204,726	353,204	(69,174)	148,478
Net change in fund balances	(608,124)	(863,146)	512,472	(255,022)	1,375,618
Fund Balances:					
July 1, 2005	3,265,592	3,265,592	3,265,592	-	-
June 30, 2006	2,657,468	2,402,446	3,778,064	(255,022)	1,375,618

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

SOUTH PIKE SCHOOL DISTRICT
 Budgetary Comparison Schedule
 Title I-A Basic Fund
 For the Year Ended June 30, 2006

Schedule 2

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	-	-	122	-	122
Federal sources	1,217,816	1,217,816	1,154,623	-	(63,193)
Total Revenues	1,217,816	1,217,816	1,154,745	-	(63,071)
Expenditures:					
Instruction	558,220	545,959	526,070	12,261	19,889
Support services	495,643	496,617	459,859	(974)	36,758
Noninstructional services	23,670	51,197	50,806	(27,527)	391
Total Expenditures	1,077,533	1,093,773	1,036,735	(16,240)	57,038
Excess (deficiency) of revenues over expenditures	140,283	124,043	118,010	(16,240)	(6,033)
Other Financing Sources (Uses)					
Operating transfers out	(187,256)	(187,256)	(117,928)	-	69,328
Total Other Financing Sources (Uses)	(187,256)	(187,256)	(117,928)	-	69,328
Net change in fund balances	(46,973)	(63,213)	82	(16,240)	63,295
Fund Balances:					
July 1, 2005	2,406	2,406	2,406	-	-
June 30, 2006	(44,567)	(60,807)	2,488	(16,240)	63,295

SOUTH PIKE SCHOOL DISTRICT
 Budgetary Comparison Schedule
 Displaced Students Grant Fund
 For the Year Ended June 30, 2006

Schedule 3

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	-	691,823	691,823	691,823	-
Total Revenues	-	691,823	691,823	691,823	-
Expenditures:					
Instruction	-	624,027	624,027	(624,027)	-
Support services	-	67,796	67,796	(67,796)	-
Total Expenditures	-	691,823	691,823	(691,823)	-
Excess (deficiency) of revenues over expenditures	-	-	-	-	-
Other Financing Sources (Uses)					
Total Other Financing Sources (Uses)	-	-	-	-	-
Net change in fund balances	-	-	-	-	-
Fund Balances:					
July 1, 2005	-	-	-	-	-
June 30, 2006	-	-	-	-	-

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

SOUTH PIKE SCHOOL DISTRICT

Notes to the Required Supplemental Information
For the Year Ended June 30, 2006

Notes to the Required Supplementary Information

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

SUPPLEMENTAL INFORMATION

SOUTH PIKE 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>Catalog of Federal Domestic Assistance Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education		
Non-cash assistance:		
Food donation	10.550	\$ 74,587
Child nutrition cluster:		
School breakfast program	10.553	260,956
National school lunch program	10.555	560,076
Total		<u>821,032</u>
Total U.S. Department of Agriculture		<u>895,619</u>
<u>U.S. Department of Defense</u>		
Direct program:		
Reserve Officers' Training Corps	12.XXX	37,554
Total U.S. Department of Defense		<u>37,554</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.XXX	7,563
Total Federal Communications Commission		<u>7,563</u>
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	1,099,565
Vocational education - basic grants to states	84.048	32,447
Safe and drug-free schools and communities - state grants	84.186	17,626
Eisenhower professional development state grants	84.281	197,592
Education technology state grants	84.318	78,191
Comprehensive school reform demonstration	84.332	58,500
Reading first state grants	84.357	196,264
Improving teacher quality - state grants	84.367	108,032
Grants for state assessments and related activities	84.369	12,336
Hurricane education recovery	84.938	691,823
Total		<u>2,492,376</u>
Special education cluster:		
Special education - grants to states	84.027	736,174
Special education - preschool grants	84.173	3,971
Total special education cluster		<u>740,145</u>
Total Passed-through Mississippi Department of Education		<u>3,232,521</u>
Total U.S. Department of Education		<u>3,232,521</u>
<u>U.S. Department of Health and Human Services</u>		
Passed-through Mississippi Department of Health and Human Services:		
Medicaid school-based claiming	93.XXX	19,938
Total U.S. Department of Health and Human Services		<u>19,938</u>
<u>U.S. Department of Homeland Security</u>		
Passed-through Mississippi Emergency Management Agency:		
Public assistance grants	97.036	24,194
Total U.S. Department of Homeland Security		<u>24,194</u>
Total for All Federal Awards		<u>\$ 4,217,389</u>

NOTES TO SCHEDULE

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

South Pike 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	\$ 13,546,255	11,074,425	503,611	886,208	1,082,011
Other	3,428,510	1,383,883	411,071	46,523	1,587,033
Total	16,974,765	12,458,308	914,682	932,731	2,669,044
Total number of students *		1,936			
Cost per student		\$ 8,768			
		6,435		482	
		1,379			

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

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

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

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

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

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

McDaniel CPA Firm
Certified Public Accountant / Financial Consultant

Scotty McDaniel, CPA

MEMBER

Mississippi Society
of Certified Public
Accountants

**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**

April 21, 2007

Superintendent and School Board
South Pike School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the South Pike School District as of and for the year ended June 30, 2006, which collectively comprise the South Pike School District's basic financial statements and have issued our report thereon dated April 21, 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 school district's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did not note any matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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*.

130 Shadow Lake Drive - Hattiesburg, MS 39402
Tel : 601-296-1007 / 601-408-9378
Fax: 601-296-6477
Email: mccpafirm@gmail.com

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.

McDaniel CPA Firm

McDaniel CPA Firm
Certified Public Accountant / Financial Consultant

Scotty McDaniel, CPA

MEMBER

Mississippi Society
of Certified Public
Accountants

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

April 21, 2007

Superintendent and School Board
South Pike School District

Compliance

We have audited the compliance of the South Pike School District with the types of compliance requirements described in *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 Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the school district's management. Our responsibility is to express an opinion on the school district's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the school district's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the school district's compliance with those requirements.

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

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

McDaniel CPA Firm

McDaniel CPA Firm
Certified Public Accountant / Financial Consultant

Scotty McDaniel, CPA

MEMBER
Mississippi Society
of Certified Public
Accountants

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

April 21, 2007

Superintendent and School Board
South Pike School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the South Pike School District as of and for the year ended June 30, 2006, which collectively comprise South Pike School District's basic financial statements and have issued our report thereon dated April 21, 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 instances of noncompliance. The district reported \$ 40,725 of classroom supply funds carried over from previous years.

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

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

McDaniel CPA Firm

130 Shadow Lake Drive - Hattiesburg, MS 39402
Tel : 601-296-1007 / 601-408-9378
Fax: 601-296-6477
Email: mccpafirm@gmail.com

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

Section 1: Summary of Auditor's Results

Financial Statements:

- | | | |
|-----|--|-------------|
| 1 . | Type of auditor's report issued on the general purpose financial statements: | 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 program: | unqualified |
| 5 . | Internal Control over major program: | |
| | a. Material weakness(es) identified? | no |
| | b. Reportable condition(s) identified that are not considered to be material weaknesses? | no |
| 6 . | Any audit finding(s) reported as required by section ____ .510(a) of Circular A-133? | no |
| 7 . | Federal programs identified as a major program: | |
| | a. Hurricane education recovery | |
| | CFDA #: 84.938 | |
| | b. Special education cluster | |
| | CFDA # 84.027 | |
| | CFDA # 84.173 | |
| 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 |
| 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? | no |

Section 2: Financial Statement Findings

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

Section 3: Federal Award Findings and Questioned Costs

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