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

**SOUTH TIPPAH SCHOOL DISTRICT
AUDITED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED JUNE 30, 2006

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**SOUTH TIPPAH SCHOOL DISTRICT
AUDITED FINANCIAL STATEMENTS**

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FINANCIAL AUDIT REPORT

Eaton, Babb & Smith

A Professional Association
Certified Public Accountants/Financial Consultants

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

Superintendent and School Board
South Tippah School District

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2006, on our consideration of the South Tippah School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 7 through 15 and the Budgetary Comparison Schedules and corresponding notes on pages 36 through 39 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Eaton, Babb + Smith

Ripley, Mississippi
December 8, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

FINANCIAL HIGHLIGHTS

- Total net assets increased \$1,043,750, which represents a 6.62% increase from fiscal year 2005. After meeting the needs of the students, the District was conservative with expenditures for FY 2006 in anticipation of capital building projects.
- General revenues account for \$14,980,551, or 76.58% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$4,580,553 or 23.42% of total revenues.
- The District had \$18,570,094 in expenses; only \$4,580,553 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$14,980,551 were adequate to provide for these programs.
- Among major funds, the General Fund had \$15,428,069 in revenues and \$14,165,240 in expenditures. The General Fund's fund balance increased \$1,089,397 over the prior year. This was due to a conservative approach to expenditures in anticipation of capital building projects.
- Capital assets, net of accumulated depreciation, decreased by \$157,898.
- Long-term debt decreased by \$11,755.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

The basic governmental fund financial statements can be found on pages 19 and 21 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The school district's fiduciary activities are presented in separate Statements of Fiduciary Net Assets on page 23.

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

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund. This required supplementary information can be found on pages 36 - 39 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on page 41 of this report. A schedule of instructional, administrative, and other expenditures for governmental funds as required by the Mississippi State Auditor's Office is on page 42.

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 \$16,802,440 as of June 30, 2006, which represents a 6.62% increase from fiscal year 2005. (See Table 1.)

By far the largest portion of the District's net assets (51.84%) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment and furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

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.

Table 1 provides a summary of the District's net assets for 2006 compared to 2005:

**Table 1
Condensed Statement of Net Assets**

	<u>2006</u>	<u>2005</u>	<u>Total Percentage Change 2005-2006</u>
Current assets	\$ 8,315,432	\$ 7,181,854	15.78%
Capital assets, net	8,710,639	8,868,537	-1.78%
Total Assets	<u>17,026,071</u>	<u>16,050,391</u>	6.08%
Current liabilities	83,517	139,832	-40.27%
Long-term debt outstanding	140,114	151,869	-7.74%
Total Liabilities	<u>223,631</u>	<u>291,701</u>	-23.33%
Net assets:			
Invested in capital assets, net of related debt	8,710,639	8,868,537	-1.78%
Restricted	691,878	591,382	16.99%
Unrestricted	7,399,923	6,298,771	17.48%
Total net assets	<u>\$ 16,802,440</u>	<u>\$ 15,758,690</u>	6.62%

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

- The acquisition of three buses in the amount of \$159,525.

Changes in net assets. The District's total revenues increased 9.52% to \$19,561,104. (See Table 2.) State revenues accounted for most of the District's revenue contributing about 65 cents of every dollar raised. (See Figure 1.) Another 19% came from operating grants and contributions, 10% from property taxes and the remainder from fees charged for services, interest earnings, federal revenue and other sources.

The total cost of all programs and services rose 8.44% to \$18,570,094. The District's expenses are predominantly related to educating students 63%. (See Figure 2.) The \$946,264 or 8.75% increase in instruction costs derives largely from salary increases for teachers and other educational staff.

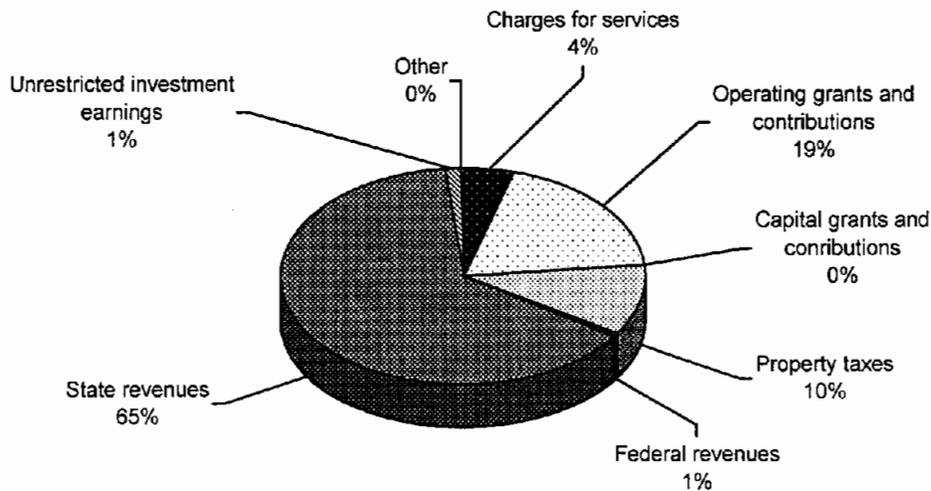
Total revenues surpassed expenses, increasing net assets \$991,010 over last year.

Table 2 shows the changes in net assets for fiscal year 2006 compared to 2005:

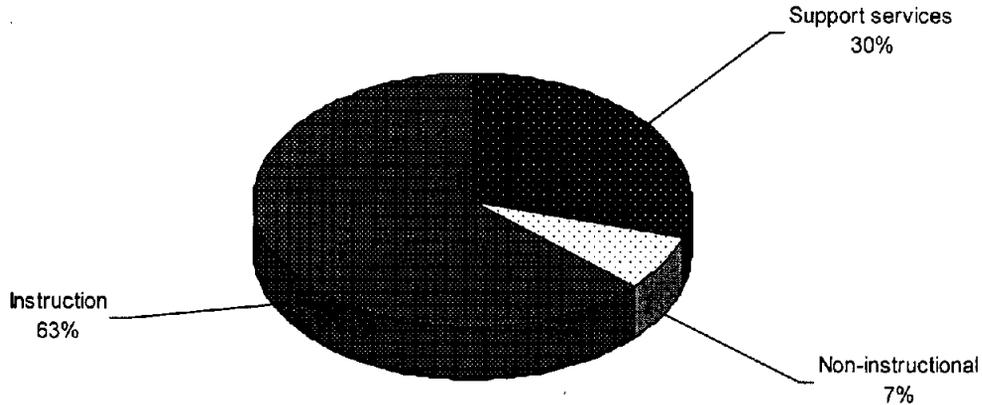
Table 2
Changes in Net Assets

	<u>2006</u>	<u>2005</u>	<u>Total Percentage Change 2005-2006</u>
Revenues:			
Program revenues:			
Charges for services	\$ 857,303	\$ 772,664	10.95%
Operating grants and contributions	3,710,900	3,121,562	18.88%
Capital grants and contributions	12,350	123,581	-90.01%
General revenues:			
Property taxes	2,022,939	2,003,843	0.95%
Grants and contributions not restricted:			
State	12,487,913	11,504,376	8.55%
Federal	133,639	103,516	29.10%
Unrestricted investment earnings	289,773	166,231	74.32%
Other	46,287	64,392	-28.12%
Total revenues	19,561,104	17,860,165	9.52%
Expenses:			
Instruction	11,760,156	10,813,892	8.75%
Support services	5,506,537	5,033,839	9.39%
Non-instructional	1,303,401	1,277,800	2.00%
Total expenses	18,570,094	17,125,531	8.44%
Increase in net assets	991,010	734,634	34.90%
Net Assets, July 1	15,758,690	15,024,056	4.89%
Prior period adjustment	52,740	-	-
Net Assets, July 1 restated	15,811,430	15,024,056	5.24%
Net Assets, June 30	\$ 16,802,440	\$ 15,758,690	6.62%

Figure 1
Sources of Revenues for Fiscal Year 2006



**Figure 2
Expenses for Fiscal Year 2006**



Governmental activities. Table 3 presents the cost of three major District functional activities: instruction, support services, and non-instructional. 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.

**Table 3
Net Cost of Governmental Activities**

	Total Expenses		Percentage Change 2005-2006	Net(Expense) Revenue		Percentage Change 2005-2006
	2006	2005		2006	2005	
Instruction	\$ 11,760,156	\$ 10,813,892	8.75%	\$ (9,137,619)	\$ (8,615,451)	6.06%
Support services	5,506,537	5,033,839	9.39%	(4,646,576)	(4,253,461)	9.24%
Non-instructional	1,303,401	1,277,800	2.00%	(205,346)	(238,812)	-14.01%
Total expenses	\$ 18,570,094	\$ 17,125,531	8.44%	\$ (13,989,541)	\$ (13,107,724)	6.73%

- Net cost of governmental activities (\$13,989,541) was financed by general revenue, which is made up of primarily property taxes \$2,022,939 and state revenue of \$12,487,913.
- Interest earnings accounted for \$289,773 of funding.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$8,231,915, an increase of \$1,189,893 due primarily to the increase in the General Fund due to the District's conservative efforts in anticipation of capital building projects. \$8,157,284 or 99.09% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$74,631 or 0.91% is reserved or designated to indicate that it is not available for spending because it has already been committed for specified 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 \$1,089,397, a result of the District's conservative efforts in anticipation of capital building projects. The fund balance of Other Governmental Funds showed an increase of \$100,496.

BUDGETARY HIGHLIGHTS

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

- Budget amounts for General Fund local revenue underestimated investment earnings.
- Budget amounts for General Fund revenue from state sources did not consider MAEP insurance credit revenue in the amount of \$93,814.
- Budget amounts for General Fund revenue from federal sources did not consider E-rate revenue in the amount of \$40,624.
- Budgeted amounts for facilities acquisition and construction expenditures were decreased due primarily to school construction being delayed until the next fiscal year.
- Actual expenditures for maintenance and operations of school facilities were below budgeted levels.
- Actual expenditures were below budget, primarily because the District budgets from fund balance for unplanned expenditures (contingency). The District didn't spend the entire contingency amount.

- Actual expenditures were below budget, because the total project amount for Title I – A Basic was budgeted for July 1 – June 30, 2006, but all amounts were not spent until the next fiscal year.
- Title VI Rural & Low Income Program was not originally budgeted because the District was waiting on program approval.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2006, the District had invested \$8,710,639 in a broad range of capital assets, including land, school buildings, buses, other school vehicles and furniture and equipment. (See Table 4.) This amount represents a net decrease of \$157,898, or -1.78%, from the previous year. Total accumulated depreciation as of June 30, 2006 was \$5,331,363 and total depreciation expense for the year was \$402,705, resulting in total net assets of \$8,710,639. Table 4 shows fiscal 2006 compared to 2005:

Table 4
Capital Assets at June 30
(Net of Depreciation)

	<u>2006</u>	<u>2005</u>	<u>Total Percentage Change 2005-2006</u>
Land	\$ 125,891	\$ 125,891	0.00%
Buildings	6,999,096	3,280,605	113.35%
Building Improvements	436,187	4,267,048	-89.78%
Improvements other than buildings	168,809	179,730	-6.08%
Mobile Equipment	849,681	852,805	-0.37%
Furniture and equipment	130,975	162,458	-19.38%
Totals	<u>\$ 8,710,639</u>	<u>\$ 8,868,537</u>	-1.78%

Additional information of the District's capital assets can be found in Note 5 on pages 31 – 32 of this report.

Debt Administration. At June 30, 2006, the District had \$140,114 in compensated absences payable, of which \$0 is due within one year. Table 5 shows fiscal 2006 compared to 2005:

**Table 5
Outstanding Long-Term Debt at June 30**

	<u>2006</u>	<u>2005</u>	Total Percentage Change 2005-2006
Compensated absences	<u>\$ 140,114</u>	<u>\$ 151,869</u>	-7.74%

The District's borrowing has been limited to short term notes that have been bought by a local financing institution and an official bond rating was not required.

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

CURRENT ISSUES

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

The District has committed itself to financial excellence for many years. The millage has decreased 0.06 mills from the prior year. In addition, the District system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

Latest enrollment figures indicate that student enrollment in the District will decrease approximately seventeen (17) students over the next fiscal year. The budget for the next fiscal year has taken into account this decrease in both funding and staffing needs.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the South Tippah School District, P. O. Box 439, 402 Greenlee Avenue, Ripley, MS 38663.

FINANCIAL STATEMENTS

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

Exhibit A

	<u>Governmental Activities</u>
ASSETS:	
Cash and cash equivalents	\$ 7,737,320
Due from other governments	514,692
Accrued interest receivable	36,805
Inventories and prepaid items	26,615
Capital assets, not being depreciated:	
Land	125,891
Capital assets, net of accumulated depreciation:	
Buildings	6,999,096
Building improvements	436,187
Improvements other than buildings	168,809
Mobile equipment	849,681
Furniture and equipment	130,975
Total Assets	<u>\$ 17,026,071</u>
LIABILITIES:	
Accounts payable and accrued liabilities	\$ 70,558
Deferred revenue	12,959
Long-term liabilities, due beyond one year:	
Non-capital related liabilities	140,114
Total Liabilities	<u>223,631</u>
NET ASSETS:	
Investment in capital assets, net of related debt	8,710,639
Restricted net assets:	
Expendable:	
School-based activities	643,862
Unemployment benefits	48,016
Unrestricted	7,399,923
Total Net Assets	<u>16,802,440</u>
Total Liabilities and Net Assets	<u>\$ 17,026,071</u>

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

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

Exhibit B

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	
Governmental Activities:				Primary Governmental Activities
Instruction	\$ 11,760,156	\$ 570,431	\$ 2,052,106	\$ (9,137,619)
Support services	5,506,537	-	847,611	(4,646,576)
Non-instructional services	1,303,401	286,872	811,183	(205,346)
Total Governmental Activities	\$ 18,570,094	\$ 857,303	\$ 3,710,900	\$ (13,989,541)
General Revenues:				
Taxes:				2,022,939
General purpose levies				12,487,913
Unrestricted grants and contributions:				133,639
State				289,773
Federal				46,287
Unrestricted investment earnings				14,980,551
Other				991,010
Total General Revenues				15,758,690
Change in Net Assets				52,740
Net Assets - Beginning				15,811,430
Prior Period Adjustments				
Net Assets - Restated				
Net Assets - Ending				<u>\$ 16,802,440</u>

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

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

Exhibit C

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	Title I Fund	Title VI Fund		
ASSETS					
Cash and cash equivalents	\$ 7,154,782	\$ -	\$ -	\$ 582,538	\$ 7,737,320
Due from other governments	259,121	63,086	51,346	141,140	514,693
Accrued interest receivable	34,951	-	-	1,854	36,805
Due from other funds	200,376	-	-	73,767	274,143
Inventories and prepaid items	-	-	-	26,615	26,615
Total Assets	\$ 7,649,230	\$ 63,086	\$ 51,346	\$ 825,914	\$ 8,589,576
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	\$ 35,426	\$ 1,181	\$ 1,428	\$ 32,523	\$ 70,558
Due to other funds	73,767	61,905	49,918	88,553	274,143
Deferred revenue	-	-	-	12,960	12,960
Total Liabilities	109,193	63,086	51,346	134,036	357,661
Fund Balances:					
Reserved for:					
Inventory	-	-	-	26,615	26,615
Unemployment benefits	-	-	-	48,016	48,016
Unreserved:					
Undesignated, reported in:					
General Fund	7,540,037	-	-	-	7,540,037
Special Revenue Funds	-	-	-	617,247	617,247
Total Fund Balances	7,540,037	-	-	691,878	8,231,915
Total Liabilities and Fund Balances	\$ 7,649,230	\$ 63,086	\$ 51,346	\$ 825,914	\$ 8,589,576

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

**SOUTH TIPPAH SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006**

Exhibit C-1

Total Fund Balance - Governmental Funds **\$ 8,231,915**

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

1. Capital assets are used in governmental activities and are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$5,331,363. 8,710,639

2. Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. (140,114)

Total Net Assets - Governmental Activities **\$ 16,802,440**

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

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

Exhibit D

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	Title I Fund	Title VI Fund		
REVENUES:					
Local sources	\$ 2,801,076	\$ -	\$ -	\$ 499,115	\$ 3,300,191
State sources	12,471,817	-	-	879,017	13,350,834
Federal sources	155,176	571,917	76,519	2,104,548	2,908,160
Total Revenues	15,428,069	571,917	76,519	3,482,680	19,559,185
EXPENDITURES:					
Instruction	9,325,551	469,816	67,101	1,694,913	11,557,381
Support services	4,529,107	99,643	9,418	866,871	5,505,039
Non-instructional services	296,095	626	-	1,003,451	1,300,172
Facilities acquisition and construction	14,487	-	-	-	14,487
Total Expenditures	14,165,240	570,085	76,519	3,565,235	18,377,079
Excess (Deficiency) of Revenues over Expenditures	1,262,829	1,832	-	(82,555)	1,182,106
OTHER FINANCING SOURCES (USES):					
Insurance loss recoveries	1,920	-	-	-	1,920
Sale of transportation equipment	3,449	-	-	-	3,449
Operating transfers in	1,832	-	-	180,633	182,465
Operating transfers out	(180,633)	(1,832)	-	-	(182,465)
Total Other Financing Sources (Uses)	(173,432)	(1,832)	-	180,633	5,369
NET CHANGE IN FUND BALANCES	1,089,397	-	-	98,078	1,187,475
FUND BALANCES:					
July 1, 2005	6,450,640	-	-	591,382	7,042,022
Increase in Reserve for Inventory	-	-	-	2,418	2,418
June 30, 2006	\$ 7,540,037	\$ -	\$ -	\$ 691,878	\$ 8,231,915

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

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

Exhibit D-1

Net Change in Fund Balances - Governmental Funds **\$ 1,187,475**

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

- | | |
|---|-----------|
| 1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the lives of the assets. Capital assets purchased amounted to \$215,348, and the depreciation expense amounted to \$402,705. | (187,357) |
| 2. Gains and losses on the sale or disposal of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds. | (23,281) |
| 3. Increase (decrease) in inventory is reported as an adjustment to fund balance in the governmental funds, but non-instructional expenditures are (decreased) increased in the Statement of Activities. | 2,418 |
| 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 | 11,755 |

Change in Net Assets of Governmental Activities **\$ 991,010**

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

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

Exhibit E

	<u>Agency Funds</u>
ASSETS:	
Cash and cash equivalents	\$ 753,377
Total Assets	<u><u>\$ 753,377</u></u>
LIABILITIES:	
Accounts payable and accrued liabilities	\$ 647,857
Due to student clubs	<u>105,520</u>
Total Liabilities	<u><u>\$ 753,377</u></u>

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

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

B. Basis of Presentation

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

Government-Wide Financial Statements :

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

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

Fund Financial Statements:

Fund financial statements of the school district are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting

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

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

The school district reports the following major governmental funds:

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

Title I Fund - This fund accounts for a federal grant which is used to supplement educational services for disadvantaged children.

Title VI Fund - This fund accounts for a federal grant which is used to address the unique needs of rural school districts.

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.

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.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Account Classifications

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

E. Encumbrances

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

F. Cash and Cash Equivalents

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

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

G. Investments

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

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

Investments are reported at fair value.

H. Inventories and Prepaid Items

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Capital Assets

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

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

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

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

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

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

J. Long-Term Liabilities

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

K. Interfund Transactions and Balances

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

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

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 4 for details for interfund transactions, including receivables and payables at yearend. 27

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Equity Classifications

Government-Wide Financial Statements:

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

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

Fund Financial Statements:

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

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

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

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

M. Property Taxes

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

N. Mississippi Adequate Education Program Revenues

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Compensated Absences

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

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

P. Use of Estimates

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

NOTE 2 - CHANGES IN ACCOUNTING STANDARDS

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

NOTE 3 - CASH AND CASH EQUIVALENTS

The district follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Restrictions on deposits are imposed by the statutes as follows: Deposits. The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the school district's deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Mississippi Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

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

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$7,737,320 and \$753,377, respectively. The carrying amount of deposits reported in the government-wide financial statements was: Cash and Cash Equivalents - \$7,737,320. The bank balance was \$9,834,152.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2006, none of the district's bank balance of \$9,834,152 was exposed to custodial credit risk.

NOTE 4 - INTERFUND TRANSACTIONS AND BALANCES

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:	<u>Due From</u>	<u>Due To</u>
Governmental Funds:		
General fund	\$ 200,376	\$ 73,767
Title I fund	-	61,905
Title VI fund	-	49,918
Other governmental funds	73,767	88,553
Fiduciary Funds	<u>-</u>	<u>-</u>
Total	<u>\$ 274,143</u>	<u>\$ 274,143</u>

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

B. Transfers In/Out:	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
General fund	\$ 1,832	\$ 180,633
Title I fund	-	1,832
Title VI fund	-	-
Other governmental funds	180,633	-
Fiduciary Funds	<u>-</u>	<u>-</u>
Total	<u>\$ 182,465</u>	<u>\$ 182,465</u>

Interfund transfers were made for budgetary purposes.

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

NOTE 5 - CAPITAL ASSETS

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

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	<u>Balance June 30, 2006</u>
<u>Non-depreciable capital assets:</u>					
Land	\$ 125,891	\$ -	\$ -	\$ -	\$ 125,891
Total non-depreciable capital assets	<u>125,891</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>125,891</u>
<u>Depreciable capital assets:</u>					
Buildings	5,753,296	-	-	4,358,829	10,112,125
Building improvements	4,978,322	-	-	(4,326,547)	651,775
Improvements other than buildings	273,030	-	-	-	273,030
Mobile equipment	2,348,667	166,760	230,152	-	2,285,275
Furniture and equipment	604,208	48,588	26,608	(32,282)	593,906
Total depreciable capital assets	<u>13,957,523</u>	<u>215,348</u>	<u>256,760</u>	<u>-</u>	<u>13,916,111</u>
<u>Less accumulated depreciation for:</u>					
Buildings	2,472,691	173,344	-	466,994	3,113,029
Building improvements	711,274	22,095	-	(517,781)	215,588
Improvements other than buildings	93,300	10,921	-	-	104,221
Mobile equipment	1,495,862	146,395	207,138	475	1,435,594
Furniture and equipment	441,750	49,950	26,341	(2,428)	462,931
Total accumulated depreciation	<u>5,214,877</u>	<u>402,705</u>	<u>233,479</u>	<u>(52,740)</u>	<u>5,331,363</u>
Total depreciable capital assets, net	<u>8,742,646</u>	<u>(187,357)</u>	<u>23,281</u>	<u>52,740</u>	<u>8,584,748</u>
Governmental activities capital assets, net	<u>\$ 8,868,537</u>	<u>\$ (187,357)</u>	<u>\$ 23,281</u>	<u>\$ 52,740</u>	<u>\$ 8,710,639</u>

The above adjustments were made to reclassify certain buildings and building improvements and to correct prior year depreciation.

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

NOTE 5 - CAPITAL ASSETS (Continued)

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 219,731
Support services	177,250
Non-instructional services	5,724
Total depreciation expense	\$ 402,705

NOTE 6 - LONG-TERM LIABILITIES

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

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006
Compensated absences payable	\$ 151,869	\$ 8,128	\$ 19,883	\$ 140,114

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

NOTE 7 - DEFINED BENEFIT PENSION PLAN

Plan Description

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

Funding Policy

PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The current rate is 10.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2006, 2005, and 2004 were \$1,120,520, \$953,249, and \$878,819, respectively, which equaled the required contributions for each year.

NOTE 8 - PRIOR PERIOD ADJUSTMENTS/EXHIBITS

A summary of significant fund equity adjustments is as follows:

Exhibit B - Statement of Activities

Explanation

To correct prior year depreciation of capital assets.	\$ 52,740
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**SOUTH TIPPAAH SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

NOTE 9 - SUBSEQUENT EVENT

In November 2006, the school board approved a \$1,308,500 contract for the construction of a classroom building. The construction is expected to be completed in July 2007.

NOTE 10 - RISK MANAGEMENT

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

Participation in Public Entity Risk Pool

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

NOTE 11 - ALTERNATIVE SCHOOL CONSORTIUM

The school district entered into an Alternative School Agreement dated March 20, 1996 and revised October 1999, creating the New Albany, South Tippah, Union County Behavioral Management School. This consortium was created pursuant to the provisions of Section 37-13-92 (6), Miss. Code Ann. (1972), and approved by the Mississippi Department of Education and includes the New Albany School District, the South Tippah School District and the Union County School District.

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

The New Albany School District has been designated as the lead school district for the New Albany, South Tippah, Union County Behavioral Management School and the operations of the consortium are included in its financial statements.

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

NOTE 12 - VOCATIONAL SCHOOL CENTER

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

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

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

The following Statement of Revenues, Expenditures and Changes in Fund Balance is presented to detail the financial activity of the Tippah Career and Technology Center.

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

Revenues	
Local sources	
Taxes	\$ 196,864
Interest	3,151
Other local sources	28
Total Local sources	<u>200,043</u>
State sources	<u>346,465</u>
Total Revenues	<u>546,508</u>
Expenditures	
Salaries	361,728
Employee benefits	100,923
Purchased property services	34,117
Other purchased services	27,086
Supplies	32,333
Property	9,607
Total Expenditures	<u>565,794</u>
Excess (Deficiency) of Revenues Over Expenditures	(19,286)
Fund Balance:	
July 1, 2005	<u>154,069</u>
June 30, 2006	<u>\$ 134,783</u>

REQUIRED SUPPLEMENTARY INFORMATION

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

Schedule 1

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
	Original	Final		Original to Final	Final to Actual
REVENUES:					
Local sources	\$ 2,682,438	\$ 2,801,076	\$ 2,801,076	\$ 118,638	\$ -
State sources	12,413,758	12,471,817	12,471,817	58,059	-
Federal sources	45,000	155,176	155,176	110,176	-
Total Revenues	15,141,196	15,428,069	15,428,069	286,873	-
EXPENDITURES:					
Instruction	9,898,913	9,313,591	9,325,551	585,322	(11,960)
Support services	4,854,700	4,529,107	4,529,107	325,593	-
Non-instructional services	249,600	296,095	296,095	(46,495)	-
Facilities acquisition and construction	4,096,000	14,487	14,487	4,081,513	-
Total Expenditures	19,099,213	14,153,280	14,165,240	4,945,933	(11,960)
Excess (Deficiency) of Revenues over Expenditures	(3,958,017)	1,274,789	1,262,829	5,232,806	(11,960)
OTHER FINANCING SOURCES (USES):					
Insurance loss recoveries	-	1,920	1,920	1,920	-
Sale of transportation equipment	-	3,449	3,449	3,449	-
Operating transfers in	8,000	76,511	1,832	68,511	(74,679)
Operating transfers out	(6,500)	(255,312)	(180,633)	(248,812)	74,679
Total Other Financing Sources (Uses)	1,500	(173,432)	(173,432)	(174,932)	-
NET CHANGE IN FUND BALANCE	(3,956,517)	1,101,357	1,089,397	5,057,874	(11,960)
FUND BALANCE:					
July 1, 2005	5,900,000	6,450,640	6,450,640	550,640	-
June 30, 2006	\$ 1,943,483	\$ 7,551,997	\$ 7,540,037	\$ 5,608,514	\$ (11,960)

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

SOUTH TIPPAAH SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE FOR THE TITLE I 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:					
Federal sources	\$ 754,555	\$ 571,917	\$ 571,917	\$ (182,638)	\$ -
Total Revenues	754,555	571,917	571,917	(182,638)	-
EXPENDITURES:					
Instruction	513,077	469,816	469,816	43,261	-
Support services	213,649	99,643	99,643	114,006	-
Non-instructional services	19,785	626	626	19,159	-
Total Expenditures	746,511	570,085	570,085	176,426	-
NET CHANGE IN FUND BALANCE	8,044	1,832	1,832	(6,212)	-
OTHER FINANCING SOURCES (USES):					
Operating transfers out	(8,044)	(1,832)	(1,832)	6,212	-
Total Other Financing Sources (Uses)	(8,044)	(1,832)	(1,832)	6,212	-
FUND BALANCE:					
July 1, 2005	-	-	-	-	-
June 30, 2006	\$ -	\$ -	\$ -	\$ -	\$ -

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

SOUTH TIPPAH SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE FOR THE TITLE VI 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	-	\$ 76,519	\$ 76,519	\$ 76,519	\$ -
Total Revenues	-	76,519	76,519	76,519	-
EXPENDITURES:					
Instruction	-	67,101	67,101	(67,101)	-
Support services	-	9,418	9,418	(9,418)	-
Total Expenditures	-	76,519	76,519	(76,519)	-
NET CHANGE IN FUND BALANCE	-	-	-	-	-
FUND BALANCE:					
July 1, 2005	-	-	-	-	-
June 30, 2006	-	-	-	-	-
	\$	\$	\$	\$	\$

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

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

NOTE 1 - BUDGETARY COMPARISON SCHEDULES

1. Basis of Presentation

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

2. Budget Amendments and Revisions

The budget is adopted by the school board and is filed with the taxing authority. Amendments can be made on the approval of the school board. By statute, final budget revisions must be approved on or before October 15. A budgetary comparison schedule is presented for the general fund and each major special revenue fund consistent with accounting principles generally accepted in the United States of America.

3. Individual Fund Disclosures

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

<u>Individual Fund</u>	<u>Amount</u>
General Fund	\$ 11,960

The fund with an excess of expenditures over budget is not in violation of state law since the excess resulted from auditors' adjustments.

SUPPLEMENTAL INFORMATION

**SOUTH TIPPAH 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	\$ <u>62,489</u>
Child Nutrition Cluster:		
School breakfast program	10.553	188,085
National school lunch program	10.555	588,990
Summer food service program for children	10.559	<u>11,935</u>
Total Child Nutrition Cluster		<u>789,010</u>
Total U.S. Department of Agriculture		<u>851,499</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the Universal Service Fund	32.XXX	<u>75,287</u>
Total Federal Communications Commission		<u>75,287</u>
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	571,917
Vocational education - basic grants to states	84.048	26,571
Safe and drug-free schools and communities - state grants	84.186	17,092
Twenty-first century community learning centers	84.287	159,692
State grants for innovative programs	84.298	15,817
Education technology state grants	84.318	13,803
Rural education	84.358	76,519
English language acquisition grants	84.365	44,320
Improving teacher quality - state grants	84.367	194,838
Grants for state assessments and related activities	84.369	19,915
Hurricane education recovery	84.938	<u>55,316</u>
Total		<u>1,195,800</u>
Special education cluster:		
Special education - grants to states	84.027	672,906
Special education - preschool grants	84.173	<u>25,327</u>
Total		<u>698,233</u>
Total passed-through Mississippi Department of Education		<u>1,894,033</u>
Total U.S. Department of Education		<u>1,894,033</u>
Total for All Federal Awards		<u>\$ 2,820,819</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 financial statements.
2. The expenditure amounts include transfers out.
3. The pass-through entities did not assign identifying numbers to the school district.

SOUTH TIPPAH 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	\$ 14,167,073	\$ 11,508,347	\$ 495,117	\$ 758,348	\$ 1,405,261
Other	4,210,006	1,562,592	159,911	56,070	2,431,433
Total	\$ 18,377,079	\$ 13,070,939	\$ 655,028	\$ 814,418	\$ 3,836,694
Total number of students	2,748				
Cost per student	\$ 6,687	\$ 4,757	\$ 238	\$ 296	\$ 1,396

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

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

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

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

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

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

Eaton, Babb & Smith

A Professional Association
Certified Public Accountants/Financial Consultants

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

Superintendent and School Board
South Tippah School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South Tippah School District as of and for the year ended June 30, 2006, which collectively comprise the school district's basic financial statements, and have issued our report thereon dated December 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the school district's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the school district's ability to initiate, record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the Schedule of Findings and Questioned Costs as Finding 06-1.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described in the finding referred to above is not a material weakness.

Compliance and Other Matters

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

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

Eaton, Cobb & Smith

Ripley, Mississippi
December 8, 2006

Eaton, Babb & Smith

A Professional Association
Certified Public Accountants/Financial Consultants

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

Superintendent and School Board
South Tippah School District

Compliance

We have audited the compliance of the South Tippah School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The school district's major federal programs are identified in the summary of auditors' results section of the Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the school district's management. Our responsibility is to express an opinion on the school district's compliance based on our audit.

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

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

Internal Control Over Compliance

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

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

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

Eaton, Babb + Smith

Ripley, Mississippi
December 8, 2006

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

Eaton, Babb & Smith

A Professional Association
Certified Public Accountants/Financial Consultants

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Superintendent and School Board
South Tippah School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South Tippah School District as of and for the year ended June 30, 2006, which collectively comprise South Tippah School District's basic financial statements and have issued our report thereon dated December 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Mississippi Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$110,414 of classroom supply funds carried over from previous years.

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

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

Eaton, Babb & Smith

Ripley, Mississippi
December 8, 2006

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

Section 1: Summary of Auditors' Results

FINANCIAL STATEMENTS:

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

FEDERAL AWARDS:

- | | |
|--|--------------------|
| 4. Type of auditors' report issued on compliance for major federal programs: | <u>Unqualified</u> |
| 5. Internal control over major federal programs: | |
| a. Material weakness identified? | <u>No</u> |
| b. Reportable condition identified that is not considered to be a material weakness? | <u>No</u> |
| 6. Any audit finding reported as required by Section ____ .510(a) of Circular A-133? | <u>No</u> |
| 7. Federal programs identified as major programs: | |
| a. <u>Special Education Cluster</u> | |
| CFDA# 84.027 | |
| CFDA# 84.173 | |
| b. <u>Title I Grants to Local Education Agencies</u> | |
| CFDA# 84.010 | |
| 8. The dollar threshold used to distinguish between Type A and Type B programs: | <u>\$300,000</u> |
| 9. Auditee qualified as a low-risk auditee? | <u>Yes</u> |

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

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

No

Section 2: Financial Statement Findings

Reportable Condition Not Considered to be a Material Weakness

06-1. Finding

The district did not adequately monitor principals' compliance with internal control policies and procedures over activity funds. One school secretary routinely signed the principal's name to activity fund checks and purchase orders, and one principal did not retain documentation for athletic event receipts.

Recommendation

The district should implement procedures to insure that principals comply with internal control policies and procedures. We recommend that the district periodically perform internal audits of school activity funds.

Section 3: Federal Award Findings and Questioned Costs

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

AUDITEE'S CORRECTIVE ACTION PLAN



SOUTH TIPPDAH SCHOOL DISTRICT

DR. WARDELL HERRING, SUPERINTENDENT

P. O. BOX 439 • RIPLEY, MISSISSIPPI 38663-0439

TELEPHONE 662-837-7156 • FAX 662-837-1362

REGINA GANDY
SPED Coordinator
GREG RICHARDSON
Trans./Alt. School Director
JANE TAYLOR
FED. Programs/Curr. Cord.
ROBIN CHAPMAN
Director of Student Achievement

NANCY MCGEE
Adm. Asst./Business Adm.
BEVERLY BAYLIS-HUGHEY
Food Service Supervisor
SONDRA GRAVES
Payroll/Accounting

December 13, 2006

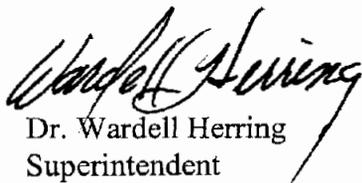
Financial & Compliance Audit Division

As required by Section .315 (c) of OMB Circular A-133, the South Tippah School District has prepared and hereby submits the following corrective action plan for the finding included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2006:

Finding 06-01

- a. Name of contact person: Dr. Wardell Herring, 662-837-7156
- b. Corrective Action Plan: The South Tippah School District has implemented procedures to insure that principals comply with internal control policies and procedures. The District will periodically perform internal audits of school activity funds.
- c. Completion date: 12-14-06

Signed,



Dr. Wardell Herring
Superintendent