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STONE COUNTY SCHOOL DISTRICT
Audited Financial Statements
For the Year Ended June 30, 2006

STONE COUNTY SCHOOL DISTRICT
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WRIGHT, WARD, HATTEN & GUEL

(SUCCESSORS TO A. L. EVANS & COMPANY ESTABLISHED 1929)

Certified Public Accountants

OLD HANCOCK BANK BUILDING
2500 - 14TH STREET
P. O. BOX 129
GULFPORT, MISSISSIPPI 39502

A. L. EVANS, CPA 1929-1959
PAUL L. WRIGHT JR., CPA 1955-1993
HENRY D. WARD, CPA, CONSULTANT
KENNETH M. HATTEN, CPA, CONSULTANT
MICHAEL E. GUEL, CPA, CFP

FAYE CAROLE CLEVELAND, CPA
SANDE W. HENTGES, CPA

MEMBERS
AMERICAN INSTITUTE OF CPAS
MISSISSIPPI SOCIETY OF CPAS

TELEPHONE (228) 863-6501
FAX NUMBER (228) 863-6544
EMAIL: THECPAFIRM@AOL.COM

February 19, 2007

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

Superintendent and School Board
Stone County School District

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2007, on our consideration of the Stone County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 5 through 14 and the Budgetary Comparison Schedule and corresponding notes on pages 41 through 46 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 Stone County School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. In addition, the Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Walter W. and 10/10/07 # 10/10/07

STONE COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

Stone County School District services an approximate student population of 2,562 in kindergarten through twelfth grade. The district is located in Wiggins, Mississippi, with approximately 170 full-time classroom teachers. There are 4 schools in the district and it allocates approximately \$5,100 per pupil for instructional expenses.

On August 29, 2005, the district suffered significant damage as a result of Hurricane Katrina. At the time of the storm, the district maintained sufficient insurance coverage to pay the costs of the damages to the district's facilities. In addition, the district also qualified for federal Hurricane Katrina disaster assistance grants which assisted in paying regular operational costs, and paying increased costs of displaced students relocating in the school district as a result of the storm. The usage of these disaster assistance grants in paying regular operational costs significantly improved the current assets and net assets of the district.

FINANCIAL HIGHLIGHTS

- Total net assets increased \$3,093,886, which represents 35% increase from fiscal year 2005.
- General revenues account for \$19,525,497 in revenue, or 76% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$6,181,153 or 24% of total revenues.
- The District had \$22,612,764 in expenses; only \$6,181,153 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$19,525,497 were adequate to provide for these programs.

- Among major funds, the General Fund had \$15,089,424 in revenues and \$12,327,960 in expenditures. The General Fund's fund balance increased \$2,615,148 over the prior year. The current increase was primarily as a result of the effect of federal Hurricane Katrina disaster awards being used to pay regular General fund operating expenses.
- Capital assets, net of accumulated depreciation, increased by \$63,614.
- Long-term liabilities decreased by \$336,343.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 19 and 21, respectively, 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 18 and 20, respectively, of this report.

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

Notes to the financial statements. The notes provide additional information that is essential to 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 23 - 40 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 41 - 46 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 48 and 50, respectively, of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$11,928,451 as of June 30, 2006.

By far the largest portion of the District's net assets at June 30, 2006 and 2005 (38% and 46%) reflects its investment in capital assets (e.g., land, buildings, improvements other than buildings, mobile equipment, furniture and equipment, leased property under capital leases and construction in progress, less any related debt used to acquire those assets that is still outstanding). The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

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

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

	June 30, 2006	June 30, 2005	Percent Change in Net Assets
Current assets	8,289,646	4,978,878	66.5%
Capital assets, net	7,744,487	7,680,873	0.8%
Total assets	16,034,133	12,659,751	26.7%
Current liabilities	751,408	134,569	458.4%
Long-term debt outstanding	3,354,274	3,690,617	-9.1%
Total liabilities	4,105,682	3,825,186	7.3%
Net assets:			
Invested in capital assets, net of related debt	4,464,506	4,066,025	9.8%
Restricted	1,433,399	1,648,982	-13.1%
Unrestricted	6,030,546	3,119,558	93.3%
Total net assets	11,928,451	8,834,565	35.0%

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

- Deferred revenue increased \$704,086 due primarily to insurance proceeds received that have not been spent as of June 30, 2006.
- Cash and cash equivalents increased \$2,657,845 due to Hurricane Katrina disaster assistance awards paying a significant portion of regular operational expenses, therefore, increasing ending available cash reserves.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2006 were \$25,706,650. The total cost of all programs and services was \$22,612,764. The following table presents a summary of the changes in net assets for the fiscal years ending June 30, 2006 and 2005, respectively.

	June 30, 2006	June 30, 2005	Percent Change in Net Assets
Revenues:			
Program revenues:			
Charges for services	676,366	874,618	-22.7%
Operating grants and contributions	5,504,787	3,163,570	74.0%
Capital grants and contributions	-	80,000	-100.0%
General revenues:			
Property taxes	4,252,256	3,701,562	14.9%
Grants and contributions not restricted	10,809,289	10,408,971	3.8%
Other	4,463,952	1,065,431	319.0%
Total revenues	<u>25,706,650</u>	<u>19,294,152</u>	33.2%
Expenses:			
Instruction	11,344,366	10,488,158	8.2%
Support services	10,247,051	5,975,026	71.5%
Non-instructional	886,869	1,276,720	-30.5%
Sixteenth section	18,936	407,067	-95.3%
Interest and other expense on long-term liabilities	115,542	172,218	-32.9%
Total expenses	<u>22,612,764</u>	<u>18,319,189</u>	23.4%
Increase (Decrease) in net assets	3,093,886	974,963	217.3%
Net Assets, July 1	<u>8,834,565</u>	<u>7,859,602</u>	12.4%
Net Assets, June 30	<u><u>11,928,451</u></u>	<u><u>8,834,565</u></u>	35.0%

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

- The School District suffered significant damage as a result of Hurricane Katrina. At the time of the storm, the district maintained sufficient insurance coverage to pay the costs of the damages to the district's facilities. In addition, the district also qualified for federal Hurricane Katrina disaster assistance grants which assisted in paying regular operational costs, and paying increased costs of displaced students relocating in the school district as a result of the storm. The usage of these disaster assistance grants in paying regular operational costs significantly improved the current assets and net assets of the district.

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	11,344,366	(7,555,234)	10,488,158	(8,226,972)
Support services	10,247,051	(9,066,366)	5,975,026	(4,945,312)
Non-instructional	886,869	284,574	1,276,720	(598,263)
Sixteenth section	18,936	20,957	407,067	(258,236)
Interest on long-term debt	115,542	(115,542)	172,218	(172,218)
Total expenses	22,612,764	(16,431,611)	18,319,189	(14,201,001)

- Net cost of governmental activities \$22,612,764 was financed by general revenue, which is made up of primarily property taxes \$4,252,256, unrestricted state revenue \$10,750,852, and state and federal operating grants and contributions of \$5,504,787.
- Investment earnings accounted for \$82,336 of funding.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$7,277,772, an increase of \$2,699,745 due primarily to the effect of federal Hurricane Katrina disaster awards being used to pay regular General fund operating expenses. \$6,760,496 or 93% 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 \$517,276 or 7% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$2,615,148. The fund balance of Other Governmental Funds showed an increase due primarily to \$84,597.

BUDGETARY HIGHLIGHTS

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

- Budget amounts for revenue from state sources was increased to full funding for Mississippi Adequate Education. The original budgeted amounts underestimated for potential cuts by the Mississippi legislature. This was done upon suggestion of the Mississippi Department of Education.
- The School District revised its budget to reflect the additional revenue received and the additional expenditures associated with insurance proceeds and damage repairs, as well as federal disaster assistance grants as a result of Hurricane Katrina.

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 were \$13,880,029, including land, school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$326,624 from the previous year. Total accumulated depreciation as of June 30, 2006 was \$6,135,542 and total depreciation expense for the year was \$279,623, resulting in total net assets of \$7,744,487.

	<u>Capital Assets, Net of Depreciation</u>		Percent Change
	<u>June 30, 2006</u>	<u>June 30, 2005</u>	
Land	353,110	337,979	4.5%
Construction in progress	-	63,913	-100.0%
Buildings	6,245,455	6,243,527	0.0%
Improvements other than buildings	355,662	378,220	-6.0%
Mobile equipment	741,415	613,955	20.8%
Furniture and equipment	45,255	39,689	14.0%
Leased property under capital leases	3,590	3,590	0.0%
Total	<u>7,744,487</u>	<u>7,680,873</u>	0.8%

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

Debt Administration. At June 30, 2006, the District had \$3,354,274 in general obligation bonds and other long-term debt outstanding, of which \$289,370 is due within one year.

	Outstanding Debt		Percent Change
	June 30, 2006	June 30, 2005	
General obligation bonds payable	2,945,000	3,200,000	-8.0%
Obligations under Energy Efficiency Leases	84,981	108,339	-21.6%
Qualified Zone Academy bonds payable	250,000	250,000	0.0%
Other loans payable	-	56,509	-100.0%
Compensated absences payable	74,293	75,769	-1.9%
Total	<u>3,354,274</u>	<u>3,690,617</u>	-9.1%

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

CURRENT ISSUES

The Stone County School District is financially stable. The District is proud of its community support of the public schools.

The District has committed itself to financial excellence for many years. The 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.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Stone County School District, 214 Critz Street, Wiggins, MS 39577.

STONE COUNTY SCHOOL DISTRICT
FINANCIAL STATEMENTS

Stone County School District
Statement of Net Assets
June 30, 2006

Exhibit A

		Primary Government Governmental Activities
Assets		
Cash and cash equivalents	\$	6,737,605
Investments		643,756
Due from other governments		541,458
Deferred charges		260,466
Inventories		33,014
Other receivables		2,451
Restricted assets		70,896
Capital assets, not being depreciated:		
Land		353,110
Capital assets, net of accumulated depreciation:		
Buildings		6,245,455
Improvements other than buildings		355,662
Mobile equipment		741,415
Furniture and equipment		45,255
Leased property under capital leases		3,590
Total Assets	\$	<u>16,034,133</u>
Liabilities		
Accounts payable and accrued liabilities	\$	47,322
Deferred revenue		704,086
Long-term liabilities, due within one year		
Capital related liabilities		289,370
Long-term liabilities, due beyond one year		
Capital related liabilities		2,990,611
Non-capital related liabilities		74,293
Total Liabilities	\$	<u>4,105,682</u>
Net Assets		
Investment in capital assets, net of related debt	\$	4,464,506
Restricted net assets:		
Expendable:		
School based activities		949,137
Debt service		188,504
Forestry improvements		174,862
Unemployment benefits		50,000
Non-expendable:		
Sixteenth section		70,896
Unrestricted		6,030,546
Total Net Assets	\$	<u>11,928,451</u>

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

Stone County School District
Statement of Activities
For the Year Ended June 30, 2006

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities
Primary Government:					
Governmental Activities:					
Instruction	\$ (11,344,366)	328,436	3,460,696		(7,555,234)
Support services	(10,247,051)		1,180,685		(9,066,366)
Non-instructional	(886,869)	308,037	863,406		284,574
Sixteenth section	(18,936)	39,893			20,957
Interest on long-term liabilities	(115,542)				(115,542)
Total governmental activities	\$ (22,612,764)	676,366	5,504,787	0	(16,431,611)
General Revenues:					
Taxes:					
					3,852,398
					399,858
Unrestricted grants and contributions:					
					58,437
					10,750,852
					82,336
					226,060
					4,155,556
					<u>19,525,497</u>
					Change in Net Assets 3,093,886
					Net Assets - Beginning <u>8,834,565</u>
					Net Assets - Ending \$ <u>11,928,451</u>

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

Stone County School District
Balance Sheet - Governmental Funds
June 30, 2006

Exhibit C

Major Funds

	General Fund	Title 1-A Basic Fund	Displaced Student Grant Fund	Insurance Loss Recovery Grant Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 4,861,614			608,014	1,338,873	6,808,501
Investments	525,000				118,756	643,756
Due from other governments	247,308	83,371	63,198		147,583	541,458
Due from other funds	200,677				6,619	207,296
Other receivables					2,451	2,451
Inventories					33,014	33,014
Total Assets	\$ 5,834,597	83,371	63,198	608,014	1,647,296	8,236,476
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities	\$ 24,122				23,200	47,322
Due to other funds		83,371	63,198		60,727	207,296
Deferred revenue				608,014	96,072	704,086
Total Liabilities	24,122	83,371	63,198	608,014	179,999	958,704
Fund Balances:						
Reserved for:						
Inventory					33,014	33,014
Debt Service					188,504	188,504
Forestry improvements					174,862	174,862
Unemployment benefits					50,000	50,000
Permanent Funds					70,896	70,896
Unreserved:						
Undesignated, reported in:						
General Fund	5,810,475				950,021	5,810,475
Special revenue						
Total Fund Balances	5,810,475				1,467,297	7,277,772
Total Liabilities and Fund Balances	\$ 5,834,597	83,371	63,198	608,014	1,647,296	8,236,476

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

Stone County School District
 Reconciliation of Governmental Funds Balance Sheet
 to the Statement of Net Assets
 June 30, 2006

Exhibit C-1

	Amount
Total Fund Balance - Governmental Funds	\$ 7,277,772
<p>Amounts reported for governmental activities in the Statement of Net Assets are different because:</p>	
<p>Capital assets used in governmental activities are not current financial resources and therefore are not reported in this funds financial statement, but are reported in the governmental activities of the Statement of Net Assets.</p>	7,744,487
<p>Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, Long-term Compensated Absences, and Bonds Payable), are not due and payable in the current period and are not included in the fund financial statements, but are included in the governmental activities of the Statement of Net Assets.</p>	(3,354,274)
<p>Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.</p>	260,466
Net Assets of Governmental Activities	\$ 11,928,451

Stone County School District
Statement of Revenues, Expenditures and
Changes in Fund Balances Governmental Funds
For the Year Ended June 30, 2006

Exhibit D

Major Funds

	General Fund	Title 1-A Basic Fund	Displaced Student Grant Fund	Insurance Loss Recovery Fund	Other Governmental Funds	Total Governmental Funds
Revenues:						
Local sources	4,211,634			15,887	819,981	5,047,502
State sources	10,695,427				640,529	11,335,956
Federal sources	182,363	698,548	331,890		3,706,880	4,919,681
Sixteenth section					265,953	265,953
Total Revenues	15,089,424	698,548	331,890	15,887	5,433,343	21,569,092
Expenditures:						
Instruction	7,427,647	352,460	78,791	156,117	3,302,289	11,317,304
Support services	4,728,668	326,333	253,099	3,977,596	701,652	9,987,348
Noninstructional services		1,820			857,560	859,380
Sixteenth section					18,936	18,936
Facilities acquisition and construction	108,022				242,399	350,421
Debt service:						
Principal	56,509				278,358	334,867
Interest	7,114				113,533	120,647
Total Expenditures	12,327,960	680,613	331,890	4,133,713	5,514,727	22,988,903
Excess (Deficiency) of Revenues Over Expenditures	2,761,464	17,935	-	(4,117,826)	(81,384)	(1,419,811)
Other Financing Sources (Uses):						
Operating transfers in	2,103,125				461,822	2,564,947
Operating transfers out	(2,231,696)	(17,935)		(1,475)	(313,841)	(2,564,947)
Insurance loss proceeds	255			4,119,301		4,119,556
Payments held by escrow agent	(18,000)				18,000	18,000
Payments to QZAB debt escrow	(146,316)	(17,935)			165,981	(18,000)
Total Other Financing Sources (Uses)	2,615,148	-	-	4,117,826	165,981	4,119,556
Net changes in fund balances	2,615,148	-	-	-	84,597	2,699,745
Fund Balance:						
July 1, 2005	3,195,327	-	-	-	1,364,680	4,560,007
Increase (decrease) in reserve for inventory					18,020	18,020
June 30, 2006	5,810,475	-	-	-	1,467,297	7,277,772

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

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

Exhibit D-1

	Amount
Net Change in Fund Balances - Governmental Funds	\$ 2,699,745
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital asset purchases amounted to \$350,421 and the depreciation expense amounted to \$279,623.	70,798
Payment of principal on long-term debt liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Activities.	334,867
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.	5,105
Issuance cost for long-term liabilities is reported as an expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, but is deferred and amortized over the life of the debt on the Statement of Activities	(28,941)
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.	(7,184)
Increase in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are increased in the Statement of Activities.	18,020
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	1,476
Change in net assets of governmental activities	\$ 3,093,886

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

Stone County School District
Statement of Fiduciary Net Assets
June 30, 2006

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ <u>744,797</u>
Total Assets	\$ <u><u>744,797</u></u>
Liabilities	
Accounts payable and accrued liabilities	\$ 729,620
Due to student clubs	<u>15,177</u>
Total Liabilities	\$ <u><u>744,797</u></u>

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

STONE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the year ended June 30, 2006

(1) Summary of Significant Accounting Policies.

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

A. Financial Reporting Entity.

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the school district's governing board. As defined by accounting principles generally accepted in the United States of America, the school district is considered a "primary government." The school district is governed by a 7 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, 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

STONE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the year ended June 30, 2006

operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the school district, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the school district.

Fund Financial Statements:

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

C. Measurement Focus and Basis of Accounting.

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

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

STONE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the year ended June 30, 2006

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.

Chapter 1 – Title I - A Fund – This fund is used to account for financial resources received and spent under the federal Title I grant program.

Displaced Student Grant Fund – This fund is used to account for financial resources received and spent under the federal Displaced Student grant program.

Insurance Loss Recovery Fund – This fund is used to account for the financial resources received and spent from the proceeds received from insurance losses incurred during Hurricane Katrina on August 29, 2005.

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

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

STONE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the year ended June 30, 2006

FIDUCIARY FUNDS

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

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

D. Account Classifications.

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

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 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.

STONE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the year ended June 30, 2006

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

Investments are reported at fair value.

H. Inventories and Prepaid Items.

Donated commodities are received from the USDA and are valued at USDA cost. Other inventories are valued at cost (calculated on the first-in, first-out basis). The costs of governmental fund type inventories are reported as expenditures when purchased.

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

I. Capital Assets.

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

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	*	*

STONE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the year ended June 30, 2006

(*) 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 unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

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

L. Equity Classifications.

Government-wide Financial Statements:

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

1. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowing that are attributable to the acquisition, construction or improvement of those assets.

STONE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the year ended June 30, 2006

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 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 for which it is restricted.

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

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

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

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

STONE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the year ended June 30, 2006

M. Property Taxes.

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

N. Mississippi Adequate Education Program Revenues.

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

O. Compensated Absences.

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

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

(2) Changes in Accounting Standards.

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

STONE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the year ended June 30, 2006

(3) Cash and Cash Equivalents 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:

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.

STONE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the year ended June 30, 2006

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 \$6,808,501 and \$744,797, respectively. The carrying amount of deposits reported in the government-wide financial statements was: cash and cash equivalents - \$6,737,605 and restricted assets - \$70,896. The restricted assets of \$70,896 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 \$6,767,838.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2006, none of the district's bank balance of \$6,767,838 was exposed to custodial credit risk.

Investments.

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

<u>Investment Type</u>	<u>Maturities (in years)</u>	<u>Fair Value</u>
Investment Pool at Trustmark Bank	Less than one year	\$ 118,756
Certificates of Deposit	1 - 5 years	525,000
		<u>\$ 643,756</u>

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

Credit Risk. State law limits investments to those prescribed in Sections 27-105-33(d) and 27-105-33(e), Miss. Code Ann. (1972). The district does not

STONE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the year ended June 30, 2006

have a formal investment policy that would further limit its investment choices or one that addresses credit risk.

Custodial Credit Risk - Investments. Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk. As of June 30, 2006, the district did not have any investments to which this would apply.

Concentration of Credit Risk. Disclosures of investments by amount and issuer for any issuer that represents five percent 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: Except for the investment in Certificate of Deposit with Bank of Wiggins of \$525,000 (that mature in 1-5 years), all investments are in an internal investment pool.

(4) Interfund Transactions and Balances.

The following is a summary of the interfund transactions and balances:

A. Due From/To Other Funds:

	Due From	Due To
Governmental Funds:		
General Fund	\$ 200,677	\$ -
Title I - A Basic Fund		83,371
Displaced Student Grant Fund		63,198
Other Governmental Funds	6,619	60,727
Total	\$ 207,296	\$ 207,296

The amounts due to or from other funds represent amounts advanced or received for timing differences between revenue and expenditures and cash balances.

B. Transfers In/Out:

	Transfers In	Transfers Out
Governmental Funds:		
General Fund	\$ 2,103,125	\$ 2,231,696
Title I - A Basic Fund		17,935
Insurance Loss Recovery Fund		1,475
Other Governmental Funds	461,822	313,841
Total	\$ 2,564,947	\$ 2,564,947

STONE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the year ended June 30, 2006

The transfers represent board approved operating transfers for school operations and planning purposes.

(5) Capital Assets.

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

	Balance July 1, 2005	Additions	Retirements	Completed Construction	Balance June 30, 2006
<u>Non depreciable capital assets</u>					
Land	\$ 337,979	15,131			\$ 353,110
Construction in progress	63,913	92,891		(156,804)	
Total non-depreciable capital assets	<u>401,892</u>	<u>108,022</u>		<u>(156,804)</u>	<u>353,110</u>
<u>Depreciable capital assets:</u>					
Buildings	9,817,187			156,804	9,973,991
Improvements other than buildings	563,950				563,950
Mobile equipment	2,108,000	212,000			2,320,000
Furniture and equipment	303,401	30,399	23,797		310,003
Leased property under capital leases	358,975				358,975
Total depreciable capital assets	<u>13,151,513</u>	<u>242,399</u>	<u>23,797</u>		<u>13,526,919</u>
<u>Less accumulated depreciation for:</u>					
Buildings	3,573,660	154,876			3,728,536
Improvements other than buildings	185,730	22,558			208,288
Mobile equipment	1,494,045	84,540			1,578,585
Furniture and equipment	263,712	17,649	16,613		264,748
Leased property under capital leases	355,385				355,385
Total accumulated depreciation	<u>5,872,532</u>	<u>279,623</u>	<u>16,613</u>		<u>6,135,542</u>
Total depreciable capital assets, net	<u>\$ 7,278,981</u>	<u>(37,224)</u>	<u>7,184</u>	<u>156,804</u>	<u>\$ 7,391,377</u>
Governmental activities – capital assets, net	<u>\$ 7,680,873</u>	<u>70,798</u>	<u>7,184</u>		<u>\$ 7,744,487</u>

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 9,060
Support Services	248,851
Non-instructional	21,712
Total depreciation expense	<u>\$ 279,623</u>

There were no outstanding construction commitments as of June 30, 2006.

STONE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the year ended June 30, 2006

(6) Long-term liabilities

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

	Balance 07-01-05	Additions	Retirements	Balance 06-30-06	Due within one year	Long-term
A. General Obligation Bonds Payable	\$ 3,200,000		255,000	2,945,000	265,000	\$ 2,680,000
B. Obligations under Energy Efficiency Leases Payable	108,339		23,358	84,981	24,370	60,611
C. Qualified Zone Academy Bonds Payable	250,000		-	250,000	-	250,000
D. Other Loans Payable	56,509		56,509	-	-	-
E. Compensated Absences	75,769		1,476	74,293	-	74,293
Total	<u>\$ 3,690,617</u>	<u>-</u>	<u>336,343</u>	<u>3,354,274</u>	<u>289,370</u>	<u>\$ 3,064,904</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:

Description	Average Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General Obligation bonds Series 2002	varies	10-1-02	10-1-08	\$ 3,365,000	2,945,000
Total				<u>\$ 3,365,000</u>	<u>2,945,000</u>

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

General Obligation Bonds FYE June 30	Principal	Interest	Total
2007	265,000	103,300	368,300
2008	275,000	96,013	371,013
2009	280,000	87,762	367,762
2010	290,000	78,803	368,803
2011	305,000	68,942	373,942
2012 - 2016	<u>1,530,000</u>	<u>169,584</u>	<u>1,699,584</u>
Total	<u>\$ 2,945,000</u>	<u>604,404</u>	<u>3,549,404</u>

STONE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the year ended June 30, 2006

The amount of bonded indebtedness that can be incurred by the school district is limited by state statute. Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in state statutes, have been met. As of June 30, 2005, the amount of outstanding bonded indebtedness was equal to 3% of property assessments as of October 1, 2005. This debt will be retired from the debt service fund.

B. Obligations under energy efficiency lease.

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

Year Ending June 30	Principal	Interest and Maintenance Charges	Total
2007	24,370	3,191	27,561
2008	25,427	2,134	27,561
2009	26,529	1,032	27,561
2010	8,655	107	8,762
Total	\$ 84,981	6,464	91,445

An energy efficiency lease agreement dated December 12, 2001, was executed by and between the district, the lessee, and Hancock Bank, the lessor.

The agreement authorized the borrowing of \$215,000 for the purchase of energy efficiency equipment, machinery, supplies building modifications and other energy saving items. Payments of the lease shall be made from the district maintenance fund and the food service fund and not exceed ten (10) years.

The district entered into this energy efficiency lease agreement under the authority of Section 31-7-14, Miss. Code Ann. (1972).

Upon written notice to the lessor, the lessee has the option of repaying the total amount due as set forth by the agreement.

This debt will be retired from the General Fund.

STONE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the year ended June 30, 2006

C. Qualified zone academy bonds payable.

As more fully explained in Note 12, 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	5%	06-01-01	6-01-11	250,000	250,000
			Total	<u>250,000</u>	<u>250,000</u>

This debt will be retired from the district maintenance fund.

D. Other loans payable

The School District has issued debt instruments granted under the authority of Section 37-59-101 through 37-59-115, Miss. Code Ann. (1972).

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Other loans payable	5.81%	12-22-95	12-22-05	500,000	-
			Total	<u>500,000</u>	<u>-</u>

This debt was retired as of June 30, 2006.

E. Compensated absences payable.

As more fully explained in Note 1(O), compensated absences payable is adjusted on an annual basis as required by Section 37-7-307(5), Miss. Code Ann. (1972). Compensated 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 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

STONE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the year ended June 30, 2006

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 rate for fiscal year ending June 30, 2006 was 10.75% of the 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 \$1,745,273, \$1,054,326 and \$970,291, 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 there from 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	48,359
2008	48,242
2009	4,142
2010	4,142
2011-2015	13,667
2016-2020	5,119
2021-2025	4,301
Total	<u>\$ 127,972</u>

STONE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the year ended June 30, 2006

(9) Subsequent Events.

On August 29, 2005, Hurricane Katrina passed through the State of Mississippi. Stone County School District suffered significant damage to its facilities. The district estimates the amount of damages to its facilities was approximately \$4.5 million. The district, however, received approximately \$4.2 in insurance proceeds for the replacement of damaged property. Other donations and federal grants were deemed sufficient to allow the District to repair damages and replace loss equipment.

(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.

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.

STONE COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the year ended June 30, 2006

(11) Prior Year Defeasance of Debt.

In prior years, the Stone County School District defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the district's financial statements. On June 30, 2005, \$2,990,000 of bonds outstanding are defeased.

(12) 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 Desoto Land and Timber, has entered into such an arrangement dated June 1, 2001.

Desoto Land and Timber will contribute services totaling \$1,400 per year for four years and teach students of the school district various topics related to land and timber management and environmental management. Desoto will also contribute cash of \$1,830 per year for two years. Bank of Wiggins will contribute services totaling \$4,000 per year for two years and \$2,000 in the third year. Foundation for Better Education will contribute cash of \$5,000.

REQUIRED SUPPLEMENTARY INFORMATION

Stone County School District
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Favorable (Unfavorable)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 3,793,173	4,211,634	4,211,634	418,461	-
State sources	10,716,027	10,695,427	10,695,427	(20,600)	-
Federal sources	209,500	182,363	182,363	(27,137)	-
Total Revenues	<u>14,718,700</u>	<u>15,089,424</u>	<u>15,089,424</u>	<u>370,724</u>	<u>-</u>
Expenditures:					
Instruction	9,205,725	7,427,647	7,427,647	(1,778,078)	-
Support services	5,363,803	4,728,668	4,728,668	(635,135)	-
Facilities acquisition and construction	214,144	108,022	108,022	(106,122)	-
Debt service:					
Principal	78,805	73,403	56,509	(5,402)	16,894
Interest	8,410	7,720	7,114	(690)	606
Total Expenditures	<u>14,870,887</u>	<u>12,345,460</u>	<u>12,327,960</u>	<u>(2,525,427)</u>	<u>17,500</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(152,187)</u>	<u>2,743,964</u>	<u>2,761,464</u>	<u>2,896,151</u>	<u>17,500</u>
Other Financing Sources (Uses):					
Operating transfers in	867,366	2,103,125	2,103,125	1,235,759	-
Operating transfers out	(579,401)	(2,231,696)	(2,231,696)	(1,652,295)	-
Insurance loss proceeds	-	255	255	255	-
Payments to QZAB debt escrow	-	-	(18,000)	-	(18,000)
Total Other Financing Sources (Uses)	<u>287,965</u>	<u>(128,316)</u>	<u>(146,316)</u>	<u>(416,281)</u>	<u>(18,000)</u>
Net Change in Fund Balances	<u>135,778</u>	<u>2,615,648</u>	<u>2,615,148</u>	<u>2,479,870</u>	<u>(500)</u>
Fund Balances:					
July 1, 2005	<u>3,015,611</u>	<u>3,195,327</u>	<u>3,195,327</u>	<u>179,716</u>	
June 30, 2006	<u>\$ 3,151,389</u>	<u>5,810,975</u>	<u>5,810,475</u>	<u>2,659,586</u>	<u>(500)</u>

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

Stone County School District
 Budgetary Comparison Schedule
 Title I - A Basic Fund
 For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variances Favorable (Unfavorable)	
	Original	Final		Original to Final	Final to Actual
	Revenues:				
Federal sources	\$ 665,248	698,548	698,548	33,300	-
Total Revenues	<u>665,248</u>	<u>698,548</u>	<u>698,548</u>	<u>33,300</u>	<u>-</u>
Expenditures:					
Instruction	334,070	352,460	352,460	18,390	-
Support services	312,036	326,333	326,333	14,297	-
Non-instructional services	1,561	1,820	1,820	259	-
Total Expenditures	<u>647,667</u>	<u>680,613</u>	<u>680,613</u>	<u>32,946</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>17,581</u>	<u>17,935</u>	<u>17,935</u>	<u>354</u>	<u>-</u>
Other Financing Sources (Uses):					
Operating transfers out	<u>(17,581)</u>	<u>(17,935)</u>	<u>(17,935)</u>	<u>(354)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(17,581)</u>	<u>(17,935)</u>	<u>(17,935)</u>	<u>(354)</u>	<u>-</u>
Net Change in Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:					
July 1, 2005	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
June 30, 2006	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

Stone County School District
 Budgetary Comparison Schedule
 Displaced Student Grant Fund
 For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variances Favorable (Unfavorable)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ -	331,890	331,890	331,890	-
Total Revenues	-	331,890	331,890	331,890	-
Expenditures:					
Instruction	-	78,791	78,791	78,791	-
Support services	-	253,099	253,099	253,099	-
Total Expenditures	-	331,890	331,890	331,890	-
Excess (Deficiency) of Revenues Over Expenditures	-	-	-	-	-
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.

Stone County School District
 Budgetary Comparison Schedule
 Insurance Loss Recovery Fund
 For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Favorable (Unfavorable)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ -	15,887	15,887	15,887	-
Total Revenues	-	15,887	15,887	15,887	-
Expenditures:					
Instruction	-	156,117	156,117	156,117	-
Support services	-	3,977,596	3,977,596	3,977,596	-
Total Expenditures	-	4,133,713	4,133,713	4,133,713	-
Excess (Deficiency) of Revenues Over Expenditures	-	(4,117,826)	(4,117,826)	(4,117,826)	-
Other Financing Sources (Uses):					
Operating transfers out		(1,475)	(1,475)	(1,475)	
Insurance loss proceeds	-	4,727,315	4,119,301	4,727,315	(608,014)
Total Other Financing Sources (Uses)	-	4,725,840	4,117,826	4,725,840	(608,014)
Net Change in Fund Balances	-	608,014	-	608,014	608,014
Fund Balances:					
July 1, 2005	-	-	-	-	-
June 30, 2006	\$ -	608,014	-	608,014	608,014

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

STONE COUNTY SCHOOL DISTRICT
Notes to the Required Supplementary Information
For the year ended June 30, 2006

Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(2) Budget Amendments and Revisions.

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

(3) Individual Fund Disclosures.

The General fund has an excess of other financing sources (uses) over budget in the amount of \$18,000. The fund with the excess of other financing sources (uses) over budget is not in violation of state law since the excess resulted from auditor's adjustments.

SUPPLEMENTAL INFORMATION

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

Federal Grantor/ Pass-through Grantor/ Program Title	CFDA #	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	\$ 82,948
Child nutrition cluster:		
School breakfast program	10.553	190,255
National school lunch program	10.555	646,274
Summer food service program for children	10.559	8,729
Total child nutrition cluster		<u>845,258</u>
Child and adult care food program	10.558	15,257
Total U.S. Department of Agriculture		<u>943,463</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	39,455
Total Federal Communications Commission		<u>39,455</u>
 <u>U.S. Department of Education</u>		
Direct Program:		
Twenty-first century community learning centers	84.287	6,465
Total		<u>6,465</u>
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	698,548
Vocational education - basic grants to states	84.048	30,324
Safe and drug-free schools and communities - state grants	84.186	20,061
State grants for innovative programs	84.298	11,191
Improving teacher quality	84.367	217,449
Total		<u>977,573</u>
Special education cluster:		
Special education - grants to states	84.027	406,939
Special education - preschool grants	84.173	28,183
Total		<u>435,122</u>
Total passed-through Mississippi Department of Education		<u>1,412,695</u>
Total U.S. Department of Education		<u>1,419,160</u>
 <u>Department of Homeland Security</u>		
Passed-through Mississippi Emergency Management Agency		
Disaster grants - public assistance (Presidentially declared disasters)	97.036	2,374,726
Total Department of Homeland Security		<u>2,374,726</u>
Total for All Federal Awards		<u><u>4,776,804</u></u>

STONE COUNTY SCHOOL DISTRICT
Notes to Schedule of Expenditures of Federal Awards
For the year ended June 30, 2006

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.

Stone County School District
 Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
 June 30, 2006

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 14,960,291	11,736,205	661,629	906,413	1,656,044
Other	8,028,612	1,329,212	123,488	25,759	6,550,153
Total	\$ 22,988,903	13,065,417	785,117	932,172	8,206,197
Total number of students	2,562 *				
Cost per student	\$ 8,973	5,100	306	364	3,203

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

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

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

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

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

* Enrollment numbers from the average daily attendance from September 2005 through May 2006

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

WRIGHT, WARD, HATTEN & GUEL

(SUCCESSORS TO A. L. EVANS & COMPANY ESTABLISHED 1929)

Certified Public Accountants

OLD HANCOCK BANK BUILDING
2500 - 14TH STREET
P. O. BOX 129
GULFPORT, MISSISSIPPI 39502

A. L. EVANS, CPA 1929-1959
PAUL L. WRIGHT JR., CPA 1955-1993
HENRY D. WARD, CPA, CONSULTANT
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SANDE W. HENTGES, CPA

MEMBERS
AMERICAN INSTITUTE OF CPAS
MISSISSIPPI SOCIETY OF CPAS

TELEPHONE (228) 863-6501
FAX NUMBER (228) 863-6544
EMAIL: THECPAFIRM@AOL.COM

February 19, 2007

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

Superintendent and School Board
Stone County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Stone County School District as of and for the year ended June 30, 2006, which collectively comprise the Stone County School District's basic financial statements and have issued our report thereon dated February 19, 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*.

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.

Wright Wood Walker & Smith

WRIGHT, WARD, HATTEN & GUEL

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FAX NUMBER (228) 863-6544
EMAIL: THECPAFIRM@AOL.COM

February 19, 2007

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

Superintendent and School Board
Stone County School District

Compliance

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

Internal Control Over Compliance

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

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

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

Wright Wood T. D. H. & S. L.

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

WRIGHT, WARD, HATTEN & GUEL

(SUCCESSORS TO A. L. EVANS & COMPANY ESTABLISHED 1929)

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FAX NUMBER (228) 863-6544
EMAIL: THECPAFIRM@AOL.COM

February 19, 2007

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

Superintendent and School Board
Stone County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Stone County School District as of and for the year ended June 30, 2006, which collectively comprise Stone County School District's basic financial statements and have issued our report thereon dated February 19, 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 \$18,643 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.

Wesley Ward Withers & Sons

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

STONE COUNTY SCHOOL DISTRICT
 Schedule of Findings and Questioned Costs
 For the year ended June 30, 2006

Section 1: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

- | | | |
|-----|---|-------------|
| 4. | Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 5. | Internal control over major programs: | |
| a. | Material weakness(es) identified? | No |
| b. | Reportable condition(s) identified that are not considered to be material weaknesses? | No |
| 6. | Any audit finding(s) reported as required by Section ____510(a) of Circular A-133? | No |
| 7. | Federal programs identified as major programs: | |
| a. | Special education cluster | |
| | CFDA # 84.027 | |
| | CFDA # 84.173 | |
| b. | Disaster grants - public assistance (Presidentially declared disasters) | |
| | CFDA# 97.036 | |
| 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.

SUMMARY OF PRIOR AUDIT FINDINGS

STONE COUNTY SCHOOL DISTRICT
Summary or Prior Year Audit Findings
For year ended June 30, 2006

There were no prior audit findings relative to federal awards.