

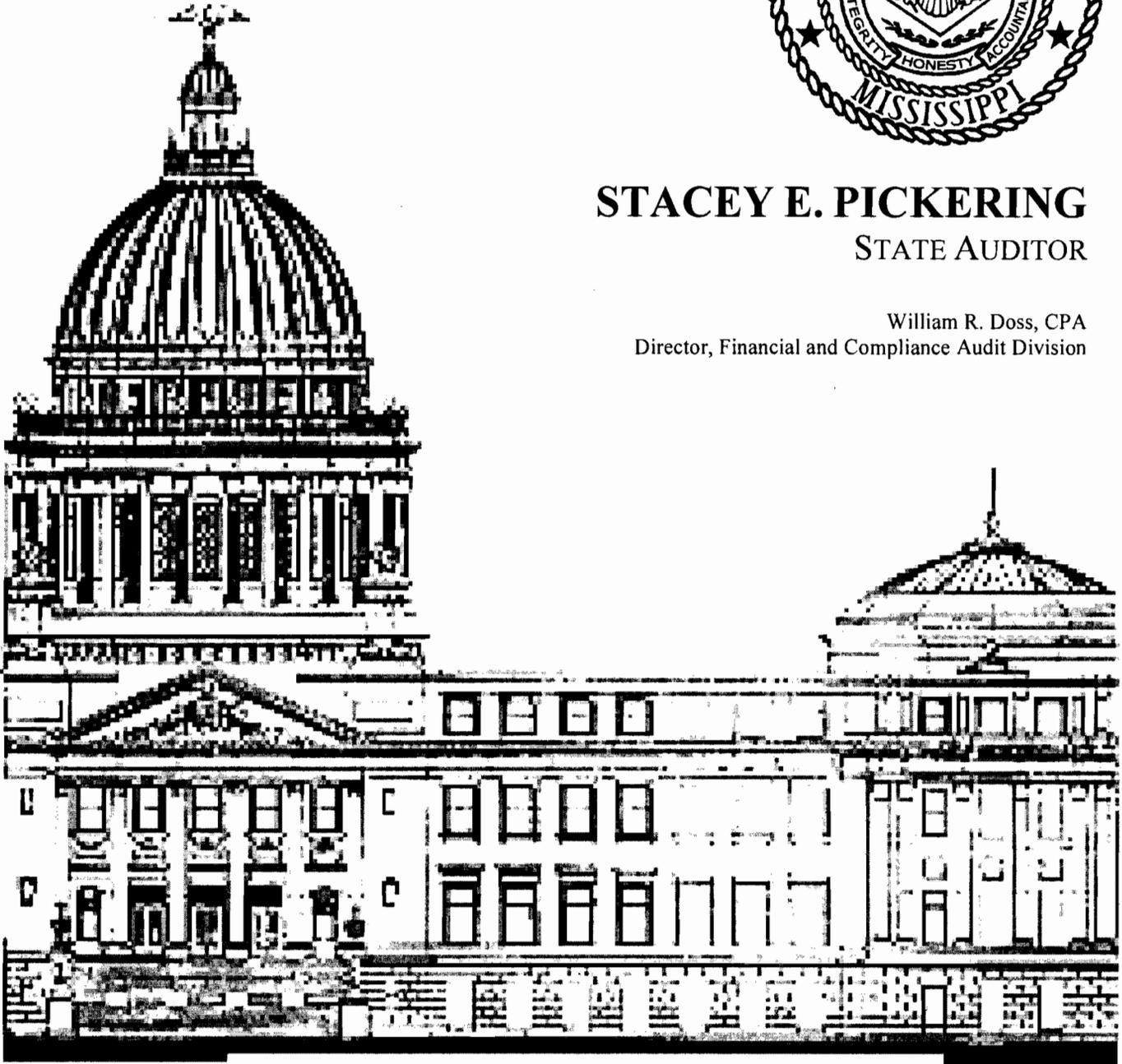
WAYNE COUNTY SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2006



STACEY E. PICKERING
STATE AUDITOR

William R. Doss, CPA
Director, Financial and Compliance Audit Division



A Report from the Education Audit Section

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WAYNE COUNTY SCHOOL DISTRICT

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WAYNE COUNTY SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

WAYNE COUNTY SCHOOL DISTRICT

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State of Mississippi

OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

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

Superintendent and School Board
Wayne 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 Wayne County School District as of and for the year ended June 30, 2006, which collectively comprise the Wayne County School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Wayne 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 Wayne 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.

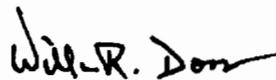
In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2008, on our consideration of the Wayne County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant 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 7 through 14 and the Budgetary Comparison Schedules 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 Wayne 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.



STACEY E. PICKERING
State Auditor



WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

February 8, 2008

WAYNE COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

WAYNE COUNTY SCHOOL DISTRICT

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

The discussion and analysis of Wayne 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.

FINANCIAL HIGHLIGHTS

Total net assets, including the effect of prior period adjustments of \$621,062, increased \$873,159, which represents a 7.34% increase from fiscal year 2005.

General revenues account for \$22,441,532 in revenue, or 75% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$7,672,953 or 25% of total revenues.

The District had \$28,620,264 in expenses; only \$7,672,953 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$22,441,532 were adequate to provide for these programs.

Among major funds, the General Fund had \$21,125,698 in revenues, \$937,083 in insurance loss recoveries due to Hurricane Katrina and \$21,004,096 in expenditures. The General Fund's balance increased \$159,181 over the prior year.

Capital assets, net of accumulated depreciation, increased by \$258,281.

Long-term debt decreased by \$750,900.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. This 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.

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.

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.

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.

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.

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.

Additionally, a schedule of expenditures of federal awards is required by OMB Circular A-133 and a schedule of instructional, administrative and other expenditures for governmental funds can be found in 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 \$12,764,308 as of June 30, 2006.

By far the largest portion of the District's net assets (52 %) reflects its investment in capital assets e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment, leased property under capital leases and construction in progress, less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

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

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

	Net Assets		Percentage Change
	<u>June 30, 2006</u>	<u>June 30, 2005</u>	
Current assets	\$ 6,966,436	4,983,347	39.8%
Other assets	811,285	1,762,931	(54.0)%
Capital assets, net	<u>15,803,031</u>	<u>15,544,750</u>	1.7%
Total assets	<u>23,580,752</u>	<u>22,291,028</u>	5.8%
Current liabilities	1,280,628	113,163	1031.7%
Long-term debt outstanding	<u>9,535,816</u>	<u>10,286,716</u>	(7.3)%
Total liabilities	<u>10,816,444</u>	<u>10,399,879</u>	4.0%
Net assets:			
Invested in capital assets, net of related debt	6,581,805	5,613,457	17.2%
Restricted	5,206,554	4,515,402	15.3%
Unrestricted	<u>975,949</u>	<u>1,762,290</u>	(44.6)%
Total net assets	<u>\$ 12,764,308</u>	<u>11,891,149</u>	7.3%

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

The principal retirement of \$750,900 of long-term debt.

The addition of \$1,724,509 in capital assets of which \$877,672 was construction in progress of the new cafeteria building at Waynesboro Middle School; however, a prior period adjustment was made to reduce capital assets for \$556,734 for assets recorded below the threshold.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2006, were \$30,114,485. The total cost of all programs and services was \$28,620,264. The following table presents a summary of the changes in net assets for the fiscal years ending June 30, 2006 and 2005, respectively.

	Change in Net Assets		Percentage Change
	June 30, 2006	June 30, 2005	
Revenues:			
Program revenues:			
Charge for services	\$ 1,315,970	\$1,126,489	16.82%
Operating grants and contributions	5,637,355	5,352,602	5.32%
Capital Grants and contributions	719,628	719,627	0.0%
General revenues:			
Property taxes	3,522,128	3,375,665	4.34%
Grants and contributions not restricted	16,632,198	15,470,109	7.51%
Other	2,287,206	1,518,982	50.57%
Special Items		227,165	(100.00)%
Total revenues	<u>30,114,484</u>	<u>27,790,639</u>	8.36%
Expenses:			
Instruction	\$17,004,189	\$15,400,119	10.42%
Support Services	8,999,128	8,188,034	9.91%
Non-instructional	2,103,993	2,243,906	(6.24)%
Sixteenth section	53,270	72,785	(26.81)%
Interest and other expense on long-term liabilities	459,684	462,392	(.59)%
Total expenses	<u>28,620,264</u>	<u>26,367,236</u>	8.54%
Increase (Decrease) in net assets	<u>1,494,221</u>	<u>1,423,403</u>	4.98%
Net Assets, July 1	11,891,149	10,461,807	13.66%
Prior Period Adjustments	<u>(621,062)</u>	<u>7,991</u>	7672.02%
Net Assets, Restated, July 1	<u>11,270,087</u>	<u>10,469,798</u>	7.64%
Decrease in Reserve for Inventory		<u>(2,052)</u>	
Net Assets, June 30	<u>\$12,764,308</u>	<u>11,891,149</u>	7.34%

There were no significant current year transactions of an extraordinary nature that have had an impact on the Statement of Activities, other than those caused by Hurricane Katrina. Insurance recoveries offset those extraordinary expenses.

Governmental activities. The following table presents the cost of the district's five major 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.

	<u>2006</u>		<u>2005</u>	
	<u>Total Expenses</u>	<u>Net (Expense) Revenue</u>	<u>Total Expenses</u>	<u>Net (Expense) Revenue</u>
Instruction	\$17,004,189	(12,952,373)	15,400,119	(12,086,436)
Support Services	8,999,128	(7,117,346)	8,188,034	(6,258,802)
Non-instructional	2,103,993	(364,638)	2,243,906	(288,103)
Sixteenth section	53,270	(53,270)	72,785	(72,785)
Interest and other expenses on long-term liabilities	<u>459,684</u>	<u>(459,684)</u>	<u>462,392</u>	<u>(462,392)</u>
Total expenses	<u>\$28,620,264</u>	<u>\$(20,947,311)</u>	<u>\$26,367,236</u>	<u>\$(19,168,518)</u>

Net cost of governmental activities \$20,947,311 was financed by general revenue, which is made up primarily of property taxes \$3,522,128 and state revenue \$16,359,052.

Investment earnings accounted for \$293,901 of funding. Insurance loss recoveries totaled \$937,083.

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 \$6,579,316, a decrease of \$146,178 including the effects of prior period adjustments. \$2,967,052 or 45.1% 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 \$3,612,264 or 54.9% 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 \$171,245, including the effects of prior period adjustments or less than 1% of revenue.

BUDGETARY HIGHLIGHTS

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

A schedule showing the original and final budget amount 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 \$23,412,495, including land, school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$407,143 from the previous year. Total accumulated depreciation as of June 30, 2006, was \$7,609,464 and total depreciation expense for the year was \$687,203, resulting in total net capital assets of \$15,803,031.

	<u>Capital Assets, Net of Depreciation</u>		<u>Percentage</u>
	<u>2006</u>	<u>2005</u>	<u>Change</u>
Land	\$ 78,757	\$ 117,257	(32.83)%
Construction in Progress	877,672	261,599	235.50%
Buildings	11,091,694	11,638,873	(4.7)%
Building Improvements	2,051,591	1,667,328	23.05%
Improvements other than buildings	171,292	225,691	(24.1)%
Mobile equipment	1,062,059	1,089,547	(2.52)%
Furniture and equipment	136,871	142,201	(3.75)%
Capital Leases	<u>333,595</u>	<u>402,254</u>	(17.07)%
Total	<u>\$15,803,531</u>	<u>\$15,544,750</u>	1.66%

Debt Administration. At June 30, 2006, the District had \$9,535,816 in limited obligation bonds and other long-term debt outstanding, of which \$614,166 is due within one year.

	<u>Outstanding Debt</u>		<u>Percentage</u>
	<u>2006</u>	<u>2005</u>	<u>Change</u>
Limited obligation bonds payable	\$5,435,000	\$5,760,000	(5.64)%
Three mill notes payable	3,335,000	3,465,000	(3.75)%
Obligations under capital leases	451,226	706,293	(36.11)%
Compensated absences payable	<u>314,590</u>	<u>355,423</u>	(11.49)%
Total	<u>\$9,535,816</u>	<u>\$10,286,716</u>	(7.30)%

CURRENT ISSUES

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

Latest enrollment figures indicate that student enrollment in the District will remain stable at about 3,900 students. The budget for the next fiscal year has taken this into account in both funding and staffing needs.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Wayne County School District, 810 Chickasawhay Street, Waynesboro, MS 39367.

WAYNE COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS

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

Exhibit A

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 4,942,823
Investments	355,916
Due from other governments	1,169,866
Other receivables, net	409,294
Inventories and prepaid items	88,537
Restricted assets	811,285
Capital assets, non-depreciable	
Land	78,257
Construction in progress	877,672
Capital assets, net of accumulated depreciation:	
Buildings	11,091,694
Building improvements	2,051,591
Improvements other than buildings	171,292
Mobile equipment	1,062,059
Furniture and equipment	136,871
Leased property under capital leases	<u>333,595</u>
Total Assets	<u><u>23,580,752</u></u>
Liabilities	
Accounts payable and accrued liabilities	1,052,105
Unearned revenue	146,300
Interest payable on long-term liabilities	82,223
Long-term liabilities, due within one year	
Capital related liabilities	599,766
Non-capital related liabilities	14,400
Long-term liabilities, due beyond one year	
Capital related liabilities	8,621,460
Non-capital related liabilities	<u>300,190</u>
Total Liabilities	<u><u>10,816,444</u></u>
Net Assets	
Invested in capital assets, net of related debt	6,581,805
Restricted net assets:	
Expendable:	
School-based activities	1,963,553
Debt service	814,460
Forestry improvements	92,062
Unemployment benefits	74,992
Non-expendable:	
Sixteenth section	2,261,487
Unrestricted	<u>975,949</u>
Total Net Assets	<u><u>\$ 12,764,308</u></u>

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

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

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental Activities:					
Instruction	\$ 17,004,189	992,635	2,934,741	124,440	(12,952,373)
Support services	8,999,128		1,286,594	595,188	(7,117,346)
Non-instructional	2,103,993	323,335	1,416,020		(364,638)
Sixteenth section	53,270				(53,270)
Interest on long-term liabilities	459,684				(459,684)
Total Governmental Activities	\$ 28,620,264	1,315,970	5,637,355	719,628	(20,947,311)
General Revenues:					
Taxes:					
					3,183,743
					338,385
Unrestricted grants and contributions:					
					16,359,052
					273,146
					293,901
					1,001,078
					992,227
					<u>22,441,532</u>
					<u>1,494,221</u>
					11,891,149
					<u>(621,062)</u>
					<u>11,270,087</u>
					<u>\$ 12,764,308</u>

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

WAYNE COUNTY SCHOOL DISTRICT
 Balance Sheet - Governmental Funds
 June 30, 2006

Exhibit C

	Major Funds					
	General Fund	School Food Fund	Sixteenth Section Interest Fund	Sixteenth Section Principal Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 2,010,336	172,422	1,646,665	811,285	1,113,400	5,754,108
Investments					355,916	355,916
Due from other governments	290,549				879,317	1,169,866
Advances to other funds				1,450,202		1,450,202
Due from other funds	907,425	6,496	10,357			924,278
Inventories and prepaid items	36,840	51,697				88,537
Total Assets	\$ 3,245,150	230,615	1,657,022	2,261,487	2,348,633	9,742,907
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities	\$ 818,999	58,997	10		174,099	1,052,105
Due to other funds		59,294	4,228		451,462	514,984
Advances from other funds	1,450,202					1,450,202
Unearned revenue			3,785		142,515	146,300
Total Liabilities	2,269,201	118,291	8,023	0	768,076	3,163,591
Fund Balances:						
Reserved for:						
Inventory		51,697				51,697
Prepaid items	36,840					36,840
Ad valorem	198,503					198,503
Advances				1,450,202		1,450,202
Unemployment benefits					74,992	74,992
Forestry improvements					92,062	92,062
Debt service					896,683	896,683
Permanent fund purposes				811,285		811,285
Unreserved:						
Undesignated, reported in:						
General Fund	740,606					740,606
Special Revenue Funds		60,627	1,648,999		516,820	2,226,446
Total Fund Balances	975,949	112,324	1,648,999	2,261,487	1,580,557	6,579,316
Total Liabilities and Fund Balances	\$ 3,245,150	230,615	1,657,022	2,261,487	2,348,633	9,742,907

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

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

Exhibit C-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 6,579,316
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets are used in governmental activities and are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$7,609,464.	15,803,031
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(9,535,816)
3. Governmental funds recognize interest on long-term debt when it becomes due, however the Statement of Net Assets recognizes interest as it accrues.	<u>(82,223)</u>
Total Net Assets - Governmental Activities	<u>\$ 12,764,308</u>

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

WAYNE 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					Total Governmental Funds
	General Fund	School Food Fund	Sixteenth Section Interest Fund	Sixteenth Section Principal Fund	Other Governmental Funds	
Revenues:						
Local sources	\$ 4,292,180	331,392	2,410		394,854	5,020,836
State sources	16,369,403	9,967			1,267,827	17,647,197
Federal sources	464,115	1,469,611			3,408,257	5,341,983
Sixteenth section sources			886,906	225,156	55,323	1,167,385
Total Revenues	21,125,698	1,810,970	889,316	225,156	5,126,261	29,177,401
Expenditures:						
Instruction	13,358,069				3,659,886	17,017,955
Support services	6,811,454	161,394			1,378,546	8,351,394
Noninstructional services	122,685	1,929,562			46,042	2,098,289
Facilities Acquisition and Construction	623,811				877,672	1,501,483
Sixteenth section			2,607		48,451	51,058
Debt Service:						
Principal	60,473	32,043			617,551	710,067
Interest	27,604				440,417	468,021
Other					1,819	1,819
Total Expenditures	21,004,096	2,122,999	2,607	0	7,070,384	30,200,086
Excess (Deficiency) of Revenues over Expenditures	121,602	(312,029)	886,709	225,156	(1,944,123)	(1,022,685)
Other Financing Sources (Uses):						
Insurance loss recoveries	937,083					937,083
Operating transfers in	1,020,999	15,001			1,915,803	2,951,803
Operating transfers out	(1,920,503)		(1,000,000)		(31,300)	(2,951,803)
Total Other Financing Sources (Uses)	37,579	15,001	(1,000,000)	0	1,884,503	937,083
Net Change in Fund Balances	159,181	(297,028)	(113,291)	225,156	(59,620)	(85,602)
Fund Balances:						
July 1, 2005	804,704	405,600	1,762,290	2,036,331	1,716,569	6,725,494
Prior period adjustments	12,064				(76,392)	(64,328)
July 1, 2005, as restated	816,768	405,600	1,762,290	2,036,331	1,640,177	6,661,166
Increase in reserve for inventory	0	3,752	0	0	0	3,752
June 30, 2006	\$ 975,949	112,324	1,648,999	2,261,487	1,580,557	6,579,316

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

WAYNE 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

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ (85,602)
Amounts reported for governmental activities in the Statement of Activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchased amounted to \$1,724,509 and the depreciation expense amounted to \$687,203.	1,037,306
2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Activities.	710,067
3. Governmental funds recognize interest on long-term debt when it becomes due, however, the Statement of Activities recognizes interest as it accrues regardless of when it becomes due.	10,156
4. Gains and losses on the sale or disposals of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds.	(222,291)
5. Increase in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are decreased in the Statement of Activities.	3,752
6. Expenses in the Statement of Activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds:	
Compensated absences	<u>40,833</u>
Change in Net Assets of Governmental Activities	<u>\$ 1,494,221</u>

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

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

Exhibit E

		<u>Agency Funds</u>
Assets		
Cash and cash equivalents	\$	<u>500,552</u>
Total Assets	\$	<u><u>500,552</u></u>
Liabilities		
Due to other funds	\$	409,294
Due to student clubs		<u>91,258</u>
Total Liabilities	\$	<u><u>500,552</u></u>

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

WAYNE 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 five member board to which each member was elected by the citizens of each defined county district.

B. Basis of Presentation.

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

Government-wide Financial Statements:

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

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

Fund Financial Statements:

Fund financial statements of the school district are organized 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.

WAYNE COUNTY SCHOOL DISTRICT

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

C. Measurement Focus and Basis of Accounting.

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

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

The school district reports the following major governmental funds:

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

School Food Fund - This fund is comprised of the national school lunch program, the school breakfast program, and the summer food service program.

Sixteenth Section Interest Fund - This fund is used to account for expendable revenues from sixteenth section sources.

Sixteenth Section Principal Fund - This is a permanent fund of which the financing sources are earnings on investments and the sale of non-renewable resources. Only the earnings on investments may be transferred to the general fund for use by the district. The permanent assets of the fund may be borrowed by the general fund for limited purposes to be repaid with interest over a period of time not to exceed 20 years.

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.

WAYNE COUNTY SCHOOL DISTRICT

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

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

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

FIDUCIARY FUNDS

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, 2003* 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 original maturities of three months or less. Cash and cash equivalents are valued at cost.

G. Investments.

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

For accounting purposes, certificates of deposit are classified as investments if they have an original maturity greater than three 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).

WAYNE COUNTY SCHOOL DISTRICT

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

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

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and governmental fund financial statements.

I. Capital Assets.

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

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

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

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

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

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

J. Long-term Liabilities.

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

K. Interfund Transactions and Balances.

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

WAYNE COUNTY SCHOOL DISTRICT

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

Short-term (due within one year) interfund loan receivables are reported as "due from other funds" and are considered available expendable resources. Noncurrent portions of long-term interfund loan receivables are reported as advances and are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and, therefore, are not available for appropriation.

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

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

L. Equity Classifications.

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

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

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

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

WAYNE COUNTY SCHOOL DISTRICT

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

Reserved for advances - An account used to offset advances recorded in the asset accounts since they do not constitute available spendable resources and are not a component of net current assets.

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 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 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 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.

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) 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:

WAYNE COUNTY SCHOOL DISTRICT

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

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

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

Cash and Cash Equivalents.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$5,754,108 and \$500,552, respectively. The carrying amount of deposits reported in the government-wide financial statements was: cash and cash equivalents - \$4,942,823 and restricted assets - \$811,285. The restricted assets of \$811,285 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 \$8,257,414.

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 \$8,257,414 was exposed to custodial credit risk.

WAYNE COUNTY SCHOOL DISTRICT

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

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>	<u>Rating</u>
Hancock Horizon Treasury Securities Money Market Mutual Fund	Less than 1	\$ <u>355,916</u>	AAAm
Total Investments		\$ <u><u>355,916</u></u>	

The Hancock Horizon Treasury Securities Money Market Mutual Fund investments are not backed by the full faith and credit of the federal government and are not FDIC insured.

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

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

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.

(3) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds.

	<u>Due From</u>	<u>Due To</u>
Governmental Funds:		
General Fund	\$ 907,425	
School Food Fund	6,496	59,294
Sixteenth Section Interest Fund	10,357	4,228
Other governmental funds		451,462
Total Governmental Funds	<u>924,278</u>	<u>514,984</u>
Fiduciary Funds	<u>0</u>	<u>409,294</u>
Total	\$ <u><u>924,278</u></u>	<u><u>924,278</u></u>

During the course of the year, expenditures in federal program funds are paid out on a reimbursement basis causing the district to borrow money from the District Maintenance Fund to cover expenditures at year-end in order to avoid a deficit cash balance in those funds. This is the primary reason for the interfund loans reported above.

WAYNE COUNTY SCHOOL DISTRICT

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

B. Advances To/From Other Funds.

	<u>Advances To</u>	<u>Advances From</u>
Governmental Funds:		
General Fund	\$	1,450,202
Sixteenth Section Principal Fund	1,450,202	
Total	<u>\$ 1,450,202</u>	<u>1,450,202</u>

Sixteenth section principal loans payable.

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

Year Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 236,600	58,008	294,608
2008	246,064	48,544	294,608
2009	255,907	38,701	294,608
2010	266,143	28,465	294,608
2011	276,791	17,819	294,610
2012 - 2016	99,164	26,117	125,281
2017 - 2021	<u>69,533</u>	<u>5,635</u>	<u>75,168</u>
Total	<u>\$ 1,450,202</u>	<u>223,289</u>	<u>1,673,491</u>

C. Transfers In/Out.

	<u>Transfer In</u>	<u>Transfers Out</u>
Governmental Funds:		
General Fund	\$ 1,020,999	1,920,503
School Food Fund	15,001	
Sixteenth Section Interest Fund		1,000,000
Other governmental funds	<u>1,915,803</u>	<u>31,300</u>
Total	<u>\$ 2,951,803</u>	<u>2,951,803</u>

The operating transfers above were primarily for the distribution of Mississippi Adequate Education Program (MAEP) Funds from the General Fund to various funds and for the transfer of Sixteenth Section Interest Funds.

WAYNE COUNTY SCHOOL DISTRICT

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

(4) Capital Assets.

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

	Balance 7-1-2005	Additions	Retirements	Completed Construction	Adjustments	Balance 6-30-2006
<u>Non-depreciable capital assets:</u>						
Land	\$ 117,257	26,000			(65,000)	78,257
Construction in progress	261,599	1,133,170		(517,097)		877,672
Total non-depreciable capital assets	<u>378,856</u>	<u>1,159,170</u>	<u>0</u>	<u>(517,097)</u>	<u>(65,000)</u>	<u>955,929</u>
<u>Depreciable capital assets:</u>						
Buildings	16,406,674	314,368	217,500		(829,628)	15,673,914
Building improvements	1,966,272	27,946		517,097	(109,897)	2,401,418
Improvements other than buildings	347,996	6,990			(66,914)	288,072
Mobile equipment	2,660,147	123,913				2,784,060
Furniture and equipment	436,477	92,122	28,427			500,172
Leased property under capital leases	808,930					808,930
Total depreciable capital assets	<u>22,626,496</u>	<u>565,339</u>	<u>245,927</u>	<u>517,097</u>	<u>(1,006,439)</u>	<u>22,456,566</u>
<u>Less accumulated depreciation for:</u>						
Buildings	4,767,801	273,920			(459,501)	4,582,220
Building improvements	298,944	89,040			(38,157)	349,827
Improvements other than buildings	122,305	11,523			(17,048)	116,780
Mobile equipment	1,570,600	151,400			1	1,722,001
Furniture and equipment	294,276	92,661	23,636			363,301
Leased property under capital leases	406,676	68,659				475,335
Total accumulated depreciation	<u>7,460,602</u>	<u>687,203</u>	<u>23,636</u>	<u>0</u>	<u>(514,705)</u>	<u>7,609,464</u>
Total depreciable capital assets, net	<u>15,165,894</u>	<u>(121,864)</u>	<u>222,291</u>	<u>517,097</u>	<u>(491,734)</u>	<u>14,847,102</u>
Governmental activities capital assets, net	<u>\$ 15,544,750</u>	<u>1,037,306</u>	<u>222,291</u>	<u>0</u>	<u>(556,734)</u>	<u>15,803,031</u>

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 51,034
Support services	607,145
Non-instructional	26,812
Sixteenth section	<u>2,212</u>
Total Depreciation Expense	<u>\$ 687,203</u>

WAYNE COUNTY SCHOOL DISTRICT

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

Commitments under construction contracts at June 30, 2006, are summarized as follows:

	<u>Remaining Commitment</u>	<u>Required Future Financing</u>
Waynesboro Middle School Cafeteria	\$ <u>311,234</u>	<u>311,234</u>
Total	\$ <u>311,234</u>	<u>311,234</u>

(5) Long-term Liabilities.

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

	<u>Balance 7-1-2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Adjustments</u>	<u>Balance 6-30-2006</u>	<u>Amounts due within one year</u>
A. Limited obligation bonds payable	\$ 5,760,000		325,000		5,435,000	345,000
B. Three mill notes payable	3,465,000		130,000		3,335,000	135,000
C. Obligations under capital leases	706,293		255,067		451,226	119,766
D. Compensated absences payable	<u>355,423</u>		<u>40,833</u>		<u>314,590</u>	<u>14,400</u>
Total	\$ <u>10,286,716</u>	<u>0</u>	<u>750,900</u>	<u>0</u>	<u>9,535,816</u>	<u>614,166</u>

A. Limited obligation bonds payable.

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
State aid capital improvement bonds, Series 1997	4.6 - 6.4%	11-1-1997	11-1-2017	\$ <u>7,120,000</u>	<u>5,435,000</u>
Total				\$ <u>7,120,000</u>	<u>5,435,000</u>

WAYNE COUNTY SCHOOL DISTRICT

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

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

	Year Ending June 30	Principal	Interest	Total
2007	\$	345,000	246,425	591,425
2008		360,000	230,210	590,210
2009		380,000	213,190	593,190
2010		400,000	195,050	595,050
2011		415,000	175,898	590,898
2012 - 2016		2,405,000	558,713	2,963,713
2017 - 2021		1,130,000	53,580	1,183,580
Total	\$	<u>5,435,000</u>	<u>1,673,066</u>	<u>7,108,066</u>

The state aid capital improvement bonds are secured by an irrevocable pledge of certain revenues the district receives from the State of Mississippi pursuant to the Mississippi Accountability and Adequate Education Program Act, Sections 37-151-1 through 37-151-7, Miss. Code Ann. (1972). The state aid capital improvement bonds are not included in the computation of the debt limit percentage. This debt will be retired from the MAEP Retirement Fund (4041).

B. Three mill notes payable.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Limited tax notes, Series 2003	4.7%	5-14-2003	5-01-2023	\$ 3,700,000	3,335,000
Total				\$ <u>3,700,000</u>	<u>3,335,000</u>

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

	Year Ending June 30	Principal	Interest	Total
2007	\$	135,000	156,620	291,620
2008		140,000	150,714	290,714
2009		145,000	144,554	289,554
2010		150,000	137,848	287,848
2011		160,000	130,573	290,573
2012 - 2016		915,000	538,060	1,453,060
2017 - 2021		1,150,000	304,910	1,454,910
2022 - 2026		540,000	39,934	579,934
Total	\$	<u>3,335,000</u>	<u>1,603,213</u>	<u>4,938,213</u>

This debt will be retired from the Debt Service Fund (4021).

WAYNE COUNTY SCHOOL DISTRICT

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

C. Obligations under capital leases.

The school district has entered into four lease agreements that qualify as capital leases for accounting purposes. Leased property under these leases is composed of:

1. Waynesboro Middle School kitchen equipment.
2. Wayne County Vo-tech Center energy efficiency and management equipment.
3. Beat Four Elementary School, Wayne County High School, Clara Elementary School, and Waynesboro Middle School energy efficiency and management equipment.
4. Wayne County Vo-tech Center HVAC, electrical and control system.

The various options available to the lessee for these leases are as follows:

1. Upon final payment the asset title passes to the school district.
2. Upon written notice to the lessor, the lessee has the option of prepaying the total amount as set forth in the agreement.

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	\$ 119,766	19,124	138,890
2008	125,226	13,664	138,890
2009	107,275	7,955	115,230
2010	56,895	3,569	60,464
2011	27,719	1,637	29,356
2012 - 2016	14,345	334	14,679
Total	<u>\$ 451,226</u>	<u>46,283</u>	<u>497,509</u>

This debt will be retired from the District Maintenance Fund, School Food Fund, EEF Building and Buses Fund, and Vocational Education Fund.

D. Compensated absences payable.

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

WAYNE COUNTY SCHOOL DISTRICT

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

(6) Defined Benefit Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer rate for fiscal year ended June 30, 2006, was 10.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2006, 2005 and 2004 were \$1,578,218, \$1,563,103 and \$1,359,720, respectively, which equaled the required contributions for each year.

(7) Other Commitments.

Commitments under construction contracts are described in Note 4.

The school district has an operating lease for a postage machine.

Lease expenditures for the year ended June 30, 2006, amounted to \$912. Future lease payments for this lease are as follows:

Year Ending June 30	Amount
2007	\$ 912
2008	<u>760</u>
Total	<u>\$ 1,672</u>

(8) Sixteenth Section Lands.

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

WAYNE COUNTY SCHOOL DISTRICT

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

Year Ending June 30	Amount
2007	\$ 40,043
2008	22,671
2009	18,357
2010	16,980
2011	14,035
2012 - 2016	34,636
2017 - 2021	13,338
2022 - 2026	12,338
2027 - 2031	6,859
Thereafter	<u>3,404</u>
Total	<u>\$ 182,661</u>

(9) Prior Period Adjustments/Exhibits.

A summary of significant fund equity adjustments is as follows:

Exhibit B - Statement of Activities

<u>Explanations</u>	<u>Amount</u>
1. Prior year interest income was not transferred from the Agency Funds to the District Maintenance Fund.	\$ 12,064
2. To eliminate fund balance in the Special Revenue Funds and defer revenue.	(76,392)
3. To remove capital assets recorded below the capitalization threshold.	<u>(556,734)</u>
Total	<u>\$ (621,062)</u>

Exhibit D - Statement of Revenues, Expenditures and Changes in Fund Balances

<u>Major Funds</u>	<u>Explanations</u>	<u>Amount</u>
General Fund	Prior year interest income was not transferred from the Agency Funds to the District Maintenance Fund.	\$ 12,064
Other Governmental Funds	To eliminate fund balance in the Special Revenue Funds and defer revenue.	<u>(76,392)</u>
Total		<u>\$ (64,328)</u>

(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. 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.

WAYNE COUNTY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

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WAYNE COUNTY SCHOOL DISTRICT
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 4,171,100	4,171,100	4,292,180		121,080
State sources	15,972,584	15,972,584	16,369,403		396,819
Federal sources	168,000	168,000	464,115		296,115
Sixteenth section sources	691,563	691,563			(691,563)
Total Revenues	21,003,247	21,003,247	21,125,698	0	122,451
Expenditures:					
Instruction	14,297,120	14,297,120	13,358,069		939,051
Support services	7,365,812	7,365,812	6,811,454		554,358
Noninstructional services	331,780	331,780	122,685		209,095
Facilities acquisition and construction			623,811		(623,811)
Debt service:					
Principal	310,653	310,653	60,473		250,180
Interest			27,604		(27,604)
Total Expenditures	22,305,365	22,305,365	21,004,096	0	1,301,269
Excess (Deficiency) of Revenues over Expenditures	(1,302,118)	(1,302,118)	121,602	0	1,423,720
Other Financing Sources (Uses):					
Insurance loss recoveries			937,083		937,083
Operating transfers in	250,000	250,000	1,020,999		770,999
Operating transfers out			(1,920,503)		(1,920,503)
Total Other Financing Sources (Uses)	250,000	250,000	37,579	0	(212,421)
Net Change in Fund Balances	(1,052,118)	(1,052,118)	159,181	0	1,211,299
Fund Balances:					
July 1, 2005	1,575,311	1,575,311	804,704	0	(770,607)
Prior period adjustment			12,064		12,064
June 30, 2006	\$ 523,193	523,193	975,949	0	452,756

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

WAYNE COUNTY SCHOOL DISTRICT
 Budgetary Comparison Schedule
 School Food Fund
 For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources			331,392		331,392
State sources			9,967		9,967
Federal sources			1,469,611		1,469,611
Total Revenues	<u>0</u>	<u>0</u>	<u>1,810,970</u>	<u>0</u>	<u>1,810,970</u>
Expenditures:					
Support services			161,394		(161,394)
Noninstructional services			1,929,562		(1,929,562)
Debt service:					
Principal			32,043		(32,043)
Total Expenditures	<u>0</u>	<u>0</u>	<u>2,122,999</u>	<u>0</u>	<u>(2,122,999)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>0</u>	<u>0</u>	<u>(312,029)</u>	<u>0</u>	<u>312,029</u>
Other Financing Sources (Uses):					
Operating transfers in			15,001		(15,001)
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>15,001</u>	<u>0</u>	<u>(15,001)</u>
Net Change in Fund Balances	<u>0</u>	<u>0</u>	<u>(297,028)</u>	<u>0</u>	<u>(297,028)</u>
Fund Balances:					
July 1, 2005	0	0	405,600	0	405,600
Increase in reserve for inventory			3,752		3,752
June 30, 2006	<u>\$ 0</u>	<u>0</u>	<u>112,324</u>	<u>0</u>	<u>112,324</u>

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

WAYNE COUNTY SCHOOL DISTRICT
 Budgetary Comparison Schedule
 Sixteenth Section Interest Fund
 For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources			2,410		2,410
Sixteenth section sources			886,906		886,906
Total Revenues	0	0	889,316	0	889,316
Expenditures:					
Sixteenth section			2,607		(2,607)
Total Expenditures	0	0	2,607	0	(2,607)
Excess (Deficiency) of Revenues over Expenditures	0	0	886,709	0	886,709
Other Financing Sources (Uses):					
Operating transfers out			(1,000,000)		(1,000,000)
Total Other Financing Sources (Uses)	0	0	(1,000,000)	0	(1,000,000)
Net Change in Fund Balances	0	0	(113,291)	0	(113,291)
Fund Balances:					
July 1, 2005	0	0	1,762,290	0	1,762,290
June 30, 2006	\$ 0	0	1,648,999	0	1,648,999

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

WAYNE COUNTY SCHOOL DISTRICT
 Budgetary Comparison Schedule
 Sixteenth Section Principal Fund
 For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Sixteenth section sources			225,156		225,156
Total Revenues	0	0	225,156	0	225,156
Total Expenditures	0	0	0	0	0
Excess (Deficiency) of Revenues over Expenditures	0	0	225,156	0	225,156
Total Other Financing Sources (Uses)	0	0	0	0	0
Net Change in Fund Balances	0	0	225,156	0	225,156
Fund Balances:					
July 1, 2005	0	0	2,036,331	0	2,036,331
June 30, 2006	\$ 0	0	2,261,487	0	2,261,487

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

WAYNE COUNTY SCHOOL DISTRICT

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

Budgetary Comparison Schedules

(1) Basis of Presentation.

The Budgetary Comparison Schedules present the original legally adopted budget, the final 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.

Individual funds that were required to be budgeted but were not budgeted are as follows:

Individual Fund	Amount
2004 Roof Repair and Bus Replacement Fund	\$ 255,498
Summer Food Service 2005 Fund	224
Title I - Basic Fund	1,274,582
Title VI - Rural & Low Fund	133,989
Title V - Innovative Program Fund	17,115
EEF Buildings and Buses Fund	146,707
Textbooks and Other Educational Material Fund	100,887
EEF Classroom Supplies Fund	41,018
Title II Fund	364,391
E2T2 Grants Fund	11,691
Katrina Displaced Fund	121,095
Katrina Displaced Special Education Fund	18,690
FEMA/MEMA Fund	124,299
EHA Part B 2000 Fiscal Year Fund	1,228,391
EHA Preschool Grant Fund	43,884
Vocational Education Basic Fund	1,384,868
Title IV - A Safe and Drug-free Fund	32,774
State Assessments Fund	23,908
Unemployment Compensation Fund	3,858
Forestry Escrow Fund	48,451
Twenty-first Century Grant Fund	5,772
Tobacco Free Mississippi Fund	56,468
Wayne Elementary Barksdale Fund	8,332
Beat Four Barksdale Fund	4,127
Dyslexia & Related Disorders Fund	15,640
MS Data Based School Fund	81,541
Wayne Middle School CSR Grant Fund	15,397
Wayne Middle School Cafeteria Fund	877,672

WAYNE COUNTY SCHOOL DISTRICT

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

School Food Service Fund	2,122,999
Sixteenth Section Interest Fund	2,607
Debt Service Fund	293,863
MAEP Bond Retirement Fund	590,649

The unbudgeted funds are in violation of state law.

WAYNE COUNTY SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

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

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	\$ <u>104,771</u>
Child nutrition cluster:		
School breakfast program	10.553	389,740
National school lunch program	10.555	1,192,718
Summer food service program for children	10.559	5,129
Total child nutrition cluster		<u>1,587,587</u>
Total U.S. Department of Agriculture		<u>1,692,358</u>
<u>U.S. Department of Defense</u>		
Direct program:		
Reserve Officers' Training Corps	12.XXX	45,345
Total U.S. Department of Defense		<u>45,345</u>
<u>U.S. Department of Labor</u>		
Passed-through Mississippi Development Authority:		
WIA - youth activities	17.259	81,541
Total U.S. Department of Labor		<u>81,541</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	12,576
Total Federal Communications Commission		<u>12,576</u>
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Rehabilitation Services:		
Rehabilitation services - vocational rehabilitation grants to states	84.126	9,988
Total		<u>9,988</u>
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	1,277,757
Vocational education - basic grants to states	84.048	56,522
Safe and drug-free schools and communities - state grants	84.186	32,774
Twenty-first century community learning centers	84.287	16,259
State grants for innovative programs	84.298	17,115
Comprehensive school reform demonstration	84.332	15,397
Rural education	84.358	133,989
Improving teacher quality - state grants	84.367	364,391
Grants for state assessments and related activities	84.369	23,955
Hurricane education recovery act	84.938	139,785
Total		<u>2,077,944</u>

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>Special education cluster:</u>		
Special education - grants to states	84.027	1,239,729
Special education - preschool grants	84.173	43,884
Total special education cluster		<u>1,283,613</u>
Total passed-through Mississippi Department of Education		<u>3,361,557</u>
Total U.S. Department of Education		<u>3,371,545</u>
 <u>Forest Service, Department of Agriculture</u>		
Passed-through the Wayne County Board of Supervisors:		
Schools and roads - grants to states	10.665	260,570
Total Forest Service, Department of Agriculture		<u>260,570</u>
 <u>Department of Homeland Security</u>		
Passed-through the Mississippi Emergency Agency:		
Disaster grants - public assistance	97.036	124,299
Total Department of Homeland Security		<u>124,299</u>
Total for All Federal Awards		<u>\$ 5,588,234</u>

NOTES TO SCHEDULE

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

WAYNE COUNTY SCHOOL DISTRICT
 Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
 For the Year Ended June 30, 2006

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other Student Instructional Expenditures</u>	<u>General Administration</u>	<u>School Administration</u>	<u>Other</u>
Salaries and fringe benefits \$	21,158,954	16,278,428	990,294	1,300,961	2,589,271
Other	<u>9,041,132</u>	<u>2,088,723</u>	<u>207,285</u>	<u>52,507</u>	<u>6,692,617</u>
Total	\$ <u>30,200,086</u>	<u>18,367,151</u>	<u>1,197,579</u>	<u>1,353,468</u>	<u>9,281,888</u>

Total number of students* 3,611

Cost per student	\$ <u>8,363</u>	<u>5,086</u>	<u>332</u>	<u>375</u>	<u>2,570</u>
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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.

* includes the number of students reported on the ADA report submission for month 9, which is the final submission for the fiscal year.

WAYNE COUNTY SCHOOL DISTRICT

REPORTS ON INTERNAL CONTROLS AND COMPLIANCE

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State of Mississippi

OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

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
Wayne County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Wayne County School District as of and for the year ended June 30, 2006, which collectively comprise the Wayne County School District's basic financial statements and have issued our report thereon dated February 8, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the school district's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the school district's ability to initiate, record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the Schedule of Findings and Questioned Costs as Findings 06-1, 06-2, 06-3 and 06-4.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described in the findings referred to above, we consider Finding 06-1 to be a material weakness.

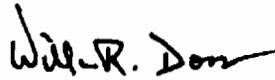
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the school district in a separate letter dated February 8, 2008, which is included in this report.

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



STACEY E. PICKERING
State Auditor



WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

February 8, 2008



State of Mississippi

OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

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
Wayne County School District

Compliance

We have audited the compliance of the Wayne 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, Wayne 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 Wayne 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.



STACEY E. PICKERING
State Auditor



WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

February 8, 2008

WAYNE COUNTY SCHOOL DISTRICT

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

WAYNE COUNTY SCHOOL DISTRICT

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State of Mississippi

OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

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

Superintendent and School Board
Wayne County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Wayne County School District as of and for the year ended June 30, 2006, which collectively comprise Wayne County School District's basic financial statements and have issued our report thereon dated February 8, 2008. 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 \$173,600 of classroom supply funds carried over from previous years.

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

1. "Notice of Tax Increase" Should Be Published to Request Additional Tax Effort

Finding

Section 27-39-207, Miss. Code Ann. (1972), states "Notice of Tax Increase" shall be published by a school district in order to collect any increase other than increases due to new property coming on the tax rolls. If the district publishes the "Notice of Tax Increase", the district can request up to a 4% tax increase and claim any increase as a result of new programs.

During our test of limitations of ad valorem taxes, we noted the district did not publish the “Notice of Tax Increase” as required by Section 27-39-207, Miss. Code Ann. (1972), and therefore was not allowed, under Sections 37-57-105 and 37-57-107, Miss. Code Ann. (1972), to request and collect any increase in ad valorem taxes other than new property assessments.

This noncompliance occurred because the district collected dollars in excess of the dollars derived from new property and did not publish the “Notice of Tax Increase.”

By not publishing the “Notice of Tax Increase,” the district collected more tax revenue than they were allowed by Section 27-39-207, Miss. Code Ann. (1972).

Recommendation

We recommend the district comply with Sections 37-57-105, 37-57-107 and 27-39-207, Miss. Code Ann. (1972). Excess ad valorem taxes collected during the fiscal year ending June 30, 2006, should be placed in escrow and used to reduce future requests.

School District’s Response

The district will use the terminology “Notice of Tax Increase” in the future. We thought that if the district was not knowingly requesting an increase in tax dollars, this terminology was not required.

2. Controls Related to Activity Fund Expenditures Should Be Strengthened

Finding

Article 4, Section 96 of the Mississippi State Constitution prohibits donations to any public employee.

We found purchases had been made which constitute donations under the Mississippi State Constitution. In two instances, flowers were purchased for individuals from Wayne Elementary School’s activity fund totaling \$118. Expenditures of public funds for unlawful purposes diminishes the public trust.

Inadequate controls to ensure compliance over state laws concerning donations resulted in this noncompliance.

Noncompliance with Article 4, Section 96 of the Mississippi Constitution could result in funds having to be repaid to the school district by the school board.

Recommendation

We recommend that the district only purchase items that are authorized by law. There is no authority for school districts to purchase flowers for individuals from activity funds. Therefore, repayment should be made to the district.

School District’s Response

It will be reiterated to all school principals that flowers, gifts and other donations are not allowed expenditures from school funds. The repayment for these two purchases has been made by the principal involved.

Auditor’s Note

The amount of \$118 was repaid to the Wayne County School District’s activity funds bank account on February 11, 2008, as evidenced by an official receipt from the bank.

3. Combining Budgets Should Be Approved by the Board and Documented

Finding

Section 37-61-17, Miss. Code Ann. (1972), states that it shall be the duty of the State Auditor to prescribe the forms for the budgets, and that it shall be the duty of the superintendents of schools and school boards to use such forms in preparing said budgets. Section 37-61-21(1), Miss. Code Ann. (1972), requires that “The revised portions of the budgets shall be incorporated in the minutes of the school board by spreading them on the minutes or by attaching them as an addendum. Final budget revisions, pertinent to a fiscal year, shall be approved on or before the date set by the State Board of Education for the school district to submit its financial information for that fiscal year.”

During our test work on budgeting, we noted that only a combined summary budget was approved by the school board. The detailed combining budget forms prescribed by the State Auditor’s Office that supported the combined summary budget could not be provided. Therefore, the district was not able to provide supporting documentation for the combined summary budget.

Inadequate controls concerning budgeting resulted in noncompliance with Sections 37-61-17 and 37-61-21(1), Miss. Code Ann. (1972).

Recommendation

We recommend the district comply with Section 37-61-17, Miss. Code Ann. (1972), which requires the school board to use budget forms prescribed by the State Auditor’s Office, and Section 37-61-21(1), Miss. Code Ann. (1972), which requires all funds with expenditures to be budgeted and if revisions are made to the budget, the final budget revisions should be approved by October 15, following the close of the fiscal year.

School District’s Response

In the future, the district will make certain that all budget forms prescribed by the Mississippi Code and the State Auditor’s Office are provided to the school board and that the final budget revisions are approved by the board by October 15 as stipulated.

4. Transfers Should Be Approved by the Board and Documented

Finding

Management is responsible for establishing a proper internal control system to ensure strong financial accountability and safeguarding of assets. Section 29-3-117, Miss. Code Ann. (1972), states, “All expendable sixteenth section revenues to which a school district shall become entitled, as provided in Sections 29-3-115 through 29-3-123, Miss. Code Ann. (1972), from annual rents, interest and other sources shall be paid into the maintenance or building fund of the school district thereto on order of the board of education.”

During our test work on budgeting and transfers, we noted that transfers were not included in the combined budget or documented in the board minutes. Also, we noted that a \$1,000,000 transfer was made from from sixteenth section expendable revenue to the district maintenance fund without board order.

Inadequate controls concerning budgeting resulted in over \$6,000,000 of transfers being made without board approval, which includes a \$1,000,000 transfer of sixteenth section interest funds.

Recommendation

We recommend the district revise its system of budgeting and include transfers in the combined and combining budgets. Also, we recommend that the district comply with Section 29-3-117, Miss. Code Ann. (1972), by obtaining a board order specifically approving transfers of all sixteenth section expendable revenues before any transfer is made.

School District's Response

All transfers will be included in the budgets from now on, and actual cash transfers out of sixteenth section interest or any other fund will be approved in advance by the school board.

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

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



STACEY E. PICKERING
State Auditor



WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

February 8, 2008

WAYNE COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

WAYNE COUNTY SCHOOL DISTRICT

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WAYNE 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? | Yes |
| b. | Reportable condition(s) identified that are not considered to be material weaknesses? | Yes |

Federal Awards:

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

WAYNE COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006

Section 2: Financial Statement Findings

Material Weakness

06-1. Controls Related to Segregation of Duties Should Be Strengthened

Finding

Management is responsible for establishing a proper internal control system to ensure strong financial accountability and safeguarding of assets.

During our test of internal controls, we noted that the same individual performed the following functions in the cash receipts/revenue cycle which indicated a lack of segregation of duties:

- Received cash
- Coded receipts by fund and function
- Prepared deposits
- Posted receipts into the financial accounting system
- Reconciled the bank balances to the general ledger system

Without proper segregation of duties, the district increases the risk that unauthorized or inappropriate transactions could be processed and the district personnel would not detect the problem while performing their normal duties.

Recommendation

We recommend the district revise its system of cash receipts/revenue, whereby, duties would be divided to the greatest extent possible and/or implement compensating controls.

Reportable Conditions Not Considered to Be Material Weaknesses

06-2. Payroll Expenditures Should Be Supported by Adequate Documentation

Finding

Management is responsible for ensuring that all payroll expenditures made by the district are adequately documented.

During our tests of payroll expenditures, we noted that the supporting documentation for nonexempt employees was incomplete or was not used to calculate the amount of salary an employee had earned.

As a result of improper internal controls for payroll expenditures, payments to nonexempt personnel were processed without adequate documentation.

Payment of wages without adequate records could result in employees being improperly compensated.

WAYNE COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006

Recommendation

We recommend the district maintain adequate records for all nonexempt personnel to support payroll expenditures.

06-3. Controls Related to Maintenance of Accurate Accounting Records Should Be Improved

Finding

A critical aspect of effective financial maintenance is accurate accounting records following generally accepted accounting principles (GAAP). Governmental GAAP requires that each fund must be accounted for separately.

We noted that the school district transferred balances from federal funds to the District Maintenance Fund in an effort to close three Special Revenue Funds. The auditor proposed adjustments that were approved by the district to transfer the funds back to the appropriate Special Revenue Fund and defer the revenue to the next year since expenditures had not been incurred to use the funds according to the specific grant requirements.

Accounting for transactions related to these Special Revenue Funds was not made in accordance with generally accepted accounting principles.

Recommendation

We recommend the district improve controls over its accounting records to ensure the district follows generally accepted accounting principles in recording transactions.

06-4. Club Expenditures Should Not Exceed Available Funds

Finding

Management is responsible for ensuring that policies and procedures are in place regarding fiduciary funds and that all assets held in a fiduciary capacity are properly safeguarded. Proper internal controls require the school board to approve all accounts that will be held in a fiduciary capacity. Safeguarding of assets and reliable financial reporting are paramount duties of management.

During test work performed on club fund balances, we noted that the Wayne County High School choral club, the Wayne County High School literary club, and the Buckatunna Elementary School student council club had negative cash balances of \$721, \$118 and \$2,715, respectively, at June 30, 2006. These funds were held in a pooled bank account with other club funds. Without approval from the other student clubs, the district does not have the authority to loan other clubs' money. This situation represents an internal control weakness over the custody of fiduciary fund assets.

Due to inadequate internal controls, club accounts were not monitored to ensure that loans were not made among student clubs without authorization.

Inadequate internal controls surrounding fiduciary funds could result in misappropriation of assets.

WAYNE COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006

Recommendation

We recommend that the district implement policies and procedures which would ensure that club funds are properly recognized and that the assets are properly segregated to safeguard each club's assets.

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.

WAYNE COUNTY SCHOOL DISTRICT

AUDITEE'S CORRECTIVE ACTION PLAN

WAYNE COUNTY SCHOOL DISTRICT

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WAYNE COUNTY SCHOOL DISTRICT

Robert Dean,
Superintendent of Education

Keith Clay,
Deputy Superintendent of Education

"Building Tomorrow's Leaders Today"

Leah Parsons, District 1
Lawrence Taylor, District 2
Charles Chapman, District 3
Jimmy Barnett, District 4
Terry Graham, District 5
Tommy Dickerson, Board Attorney

RESPONSES TO AUDIT FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED JUNE 30, 2006

SECTION 2: FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESSES

- 06- 1. a. Robert Dean, Superintendent
Doug Everitt, Business Manager
Telephone (601) 735-4871
- b. The seeming weakness in internal control over cash receipts at the Central Office is mitigated by the following facts and/or procedures:
1. In any given year, the amount of cash processed in the Central Office is less than \$4,000.
 2. All cash received in the Central Office is counted and receipted by at least two people; the person initially receiving it and the Business Manager. Most cash transactions in the Central Office are for Sixteenth Section Lease payments or for new employee fingerprinting fees. These are initially receipted by either JoAnn Hinton or Donna Jones and then are counted and receipted again by the Business Manager when the funds are passed on to him in the presence of the person who first received the cash.

In conclusion, the immateriality of cash receipts in the Central Office and its duplicate receipting are adequate safeguards. We do not feel any changes in the current procedures are necessary, nor would they be cost effective.

- c. Immediate

REPORTABLE CONDITIONS NOT CONSIDERED TO BE MATERIAL WEAKNESS

- 06- 2. a. Robert Dean, Superintendent
Doug Everitt, Business Manager
Telephone (601) 735-4871
- b. We acknowledge that our payroll system, procedures and records do not mirror those of comparably sized companies in the business world. We are well aware that we could buy more sophisticated timekeeping equipment and systems, which would require more staff to maintain, and that we could require all non-

exempt employees to clock in and out at the beginning or ending of each work period. To this point we have been unable to justify the added costs given the minimal benefit to be achieved.

We will investigate new timekeeping software and systems in an effort to improve the supporting documentation for our non-exempt payroll records. For the record, this audit did not result in any finding wherein we had over or under paid any employee.

c. March 31, 2008

06- 3. a. Doug Everitt, Business Manager
Telephone (601) 735-4871

b. These instances occurred because of a failure on my part to communicate effectively with the Grant Coordinator as to the status of the funds. I had assumed that they had been spent and coded to the wrong fund in the process of preparing the purchase orders and paying the invoices.

We will thoroughly discuss the dispensation of grant funds in the future.

c. Immediate.

06- 4. a. Robert Dean, Superintendent
Doug Everitt, Business Manager
Telephone (601) 735-4871

b. We will reiterate our standing policy that no club or class account should ever be spent into a deficit situation. If the funds are not sufficient to cover a planned expenditure, then additional funds must be raised to cover the proposed expenditure. This policy must be followed without exception.

c. Immediate.

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

1. We will use the terminology "Notice of Tax Increase" in the future. We thought that if we were not knowingly requesting an increase in tax dollars this terminology was not required.
2. We will reiterate to all school principals that flowers, gifts and other donations are not allowed expenditures from school funds. The repayment for these two purchases has been made by the principal involved, and copies of her check and the deposit slip are attached.

3. We will make certain in the future that all budget forms prescribed by the Mississippi Code and the State Auditor's office are provided to the school board and that the final budget revisions are approved by the board by October 15 as stipulated.
4. All transfers will be included in the budgets from now on, and actual cash transfers out of Sixteenth Section Interest or any other fund will be approved in advance by the school board.