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WEBSTER COUNTY SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2006

WEBSTER COUNTY SCHOOL DISTRICT
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WEBSTER COUNTY SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

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

December 13, 2006

Superintendent and School Board
Webster 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 Webster County School District as of and for the year ended June 30, 2006, which collectively comprise the Webster County School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Webster 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 Webster 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 December 13, 2006, on our consideration of the Webster 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 4 through 12 and the Budgetary Comparison Schedule and corresponding notes on pages 36 through 40 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 in it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Webster 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 Fund 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.

Watkins, Ward and Stafford, PLLC
Louisville, Mississippi
December 13, 2006

Watkins, Ward and Stafford, PLLC

WEBSTER COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Webster County Schools

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JIMMY PITTMAN
SUPERINTENDENT OF EDUCATION

The discussion and analysis of Webster 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 notes to the basic financial statements and the financial statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

This discussion and analysis is Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999.

The Webster County School District is home to two unique secondary and elementary schools and the Webster County Career and Technology Center. Eupora High School(grades 7-12), Eupora Elementary School(grades K-6), and the Career and Technology Center are all located within the city limits of Eupora. East Webster High School(grades 7-12) and East Webster Elementary School(grades K-6) are situated in Cumberland and Mathiston respectively. The total enrollment of the District consists of approximately 1706 students.

FINANCIAL HIGHLIGHTS

- Total net assets decreased $120,439 including a prior period adjustment of $6,710, which represents a 1.6% decrease from fiscal year 2005.

- General revenues account for $9,972,252 in revenue, or 76% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for $3,063,376 or 24% of total revenues.

- The District had $13,162,777 in expenses; only $3,063,376 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of $9,972,252 were inadequate to provide for these programs.

- Among major funds, the General Fund had $10,025,271 in revenues and $9,559,517 in expenditures. The General Fund's fund balance increased $80,105 over the prior year.

- Capital assets, net of accumulated depreciation, increased by $7,896.

- Long-term debt increased by $284,889. The primary reason for the increase is that the district borrowed $565,000 during the year to purchase school buses and complete various maintenance projects on school district buildings.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

The government-wide financial statements can be found on pages 14 - 15 of this report.

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

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

Because the focus of governmental funds is narrower that that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 17 and 19, respectively.

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

The basic governmental fund financial statements can be found on pages 16 - 18 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The school district's fiduciary activities are presented in separate Statements of Fiduciary Net Assets on page 20.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21 - 34 of this report.

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each major special revenue fund.

Additionally, a schedule of expenditures of federal awards is required by OMB Circular A-133.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by $ 7,302,981 as of June 30, 2006.

The largest portion of the District's net assets (67%) reflects its investment in capital assets (e.g., land, construction in progress, buildings, improvements other than buildings, mobile equipment, and furniture and equipment, less any related debt used to acquire those assets that is still outstanding). The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

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

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

	FYE June 30,2005	FYE June 30,2006
Current assets	$ 2,536,484	$ 2,710,061
Capital assets, net	8,327,110	8,335,006
Total assets	10,863,594	11,045,067
Current liabilities	453,389	417,113
Long term debt outstanding	2,986,785	3,324,973
Total liabilities	3,440,174	3,742,086
Net assets:		
Invested in capital asset, net of related debt	5,236,771	4,910,006
Restricted	1,766,568	1,843,001
Unrestricted	420,081	549,974
Total net assets	7,423,420	7,302,981

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

- The principal retirement of $319,598 of long-term debt.
- Issuance of debt in the amount of $604,666.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2006 were $13,035,628. The total cost of all programs and services was $13,162,777. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2005 and June 30,2006.

	FYE June 30,2005	FYE June 30,2006
Program Revenues:		
Charges for services	$ 627,896	$ 718,681
Operating grants & contributions	2,304,200	2,344,695
General revenues:		
Taxes	1,659,759	1,741,481
Unrestricted state grants and contributions	7,429,849	7,907,213
Unrestricted federal grants & contributions	62,786	70,048
Unrestricted investment earnings	44,985	105,784
Sixteenth section sources	168,295	77,510
Other	30,751	70,216
Total revenues	12,328,521	13,035,628
Expenses:		
Instruction	7,541,071	8,089,335
Support services	3,827,439	4,105,195
Non-instructional	791,376	815,680
Sixteenth section	26,021	1,016
Interest on long-term liabilities	148,130	151,551
Total expenses	12,334,037	13,162,777
Prior period adjustments	6,561	6,710
Increase /(decrease) in net assets	1,045	(120,439)

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

Fiscal Year Ended June 30,2005

	Total Expenses	Net(Expense) Revenue
Instruction	7,541,071	(5,954,140)
Support services	3,827,439	(3,459,491)
Non-instructional	791,376	171,695
Sixteenth section	26,021	(11,875)
Interest on long term liabilities	148,130	(148,130)
Total expenses	12,334,037	(9,401,941)

Fiscal Year Ended June 30,2006

	Total Expenses	Net(Expense) Revenue
Instruction	8,089,335	(6,431,020)
Support services	4,105,195	(3,546,479)
Non-instructional	815,680	30,665
Sixteenth section	1,016	(1,016)
Interest on long term liabilities	151,551	(151,551)
Total expenses	13,162,777	(10,099,401)

- Net cost of governmental activities $10,099,401, was financed by general revenue, which is made up of primarily property taxes $1,741,481 and state revenue $7,907,213.

- Investment earnings accounted for $105,784 of funding.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of $2,603,701 ,an increase of $169,402 due primarily to the remaining funds that were borrowed to complete district repairs that will be spent in fiscal year 2007. $1,744,376 or 67% 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 $859,325 or 33% 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 $80,105. The fund balance of Other Governmental Funds showed an increase of $89,297 for the fiscal year, including the effect of a change in inventory of $23.

BUDGETARY HIGHLIGHTS

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

A schedule showing the original and final budget amounts compared to the District's actual financial activity for the General Fund and each major special revenue fund 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 $12,425,653 , including school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of $102,888 from the previous year. The primary capital addition during the school year was the purchase of school buses. Total accumulated depreciation as of June 30, 2006 was $4,090,647 and total depreciation expense for the year was $292,128, resulting in total net assets of $8,335,006.

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

Debt Administration. At June 30, 2006, the District had $3,562,272 in general obligation bonds and other long-term debt outstanding, of which $237,299 is due within one year.

The District maintains a AA bond rating on the 1998 state aid capital improvement bonds.

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

CURRENT ISSUES

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

The District has committed itself to financial excellence for many years. The millage has decreased .79 over 2 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.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Webster County School District at 212 W Clark Avenue, Eupora, MS 39744.

WEBSTER COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS

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

Exhibit A

	Governmental Activities
Assets	
Cash and cash equivalents	$ 2,051,492
Cash with fiscal agents	137,179
Due from other governments	466,281
Accrued interest receivable	598
Other receivables, net	948
Inventories and prepaid items	42,392
Restricted assets	11,171
Capital assets, not being depreciated:	
Land	104,048
Capital assets, net of accumulated depreciation:	
Buildings	7,565,297
Improvements other than buildings	77,749
Mobile equipment	568,401
Furniture and equipment	19,511
Total Assets	11,045,067
Liabilities	
Accounts payable and accrued liabilities	106,360
Interest payable on long-term liabilities	73,454
Long-term liabilities, due within one year	
Capital related liabilities	217,800
Non-capital related liabilities	19,499
Long-term liabilities, due beyond one year	
Capital related liabilities	3,207,200
Non-capital related liabilities	117,773
Total Liabilities	3,742,086
Net Assets	
Invested in capital assets, net of related debt	4,910,006
Restricted net assets:	
Expendable:	
School-based activities	1,088,351
Debt service	329,066
Capital improvements	105,432
Forestry improvements	270,795
Unemployment benefits	38,186
Non-expendable:	
Sixteenth section	10,116
Other	1,055
Unrestricted	549,974
Total Net Assets	$ 7,302,981

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

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

Exhibit B

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities
Governmental Activities:					
Instruction	$ 8,089,335	437,820	1,220,495		(6,431,020)
Support services	4,105,195		558,716		(3,546,479)
Non-instructional	815,680	280,861	565,484		30,665
Sixteenth section	1,016				(1,016)
Interest on long-term liabilities	151,551				(151,551)
Total Governmental Activities	$ 13,162,777	718,681	2,344,695	-	(10,099,401)

General Revenues:	
Taxes:	
General purpose levies	1,704,434
Debt purpose levies	37,047
Unrestricted grants and contributions:	
State	7,907,213
Federal	70,048
Unrestricted investment earnings	105,784
Sixteenth section sources	77,510
Other	70,216
Total General Revenues	9,972,252
Total General Revenues, Special Items, Extraordinary Items and Transfers	9,972,252
Change in Net Assets	(127,149)
Net Assets - Beginning	7,423,420
Prior Period Adjustments	6,710
Net Assets - Beginning - Restated	7,430,130
Net Assets - Ending	$ 7,302,981

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

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

Exhibit C

	Major Funds						
	General Fund	Title 1 Fund	IDEA Part B Fund	16th Section Interest Fund	MAEP Retirement Fund	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash and cash equivalents	$ 447,219		17,790	893,375		704,279	2,062,663
Cash with fiscal agents					137,179		137,179
Due from other governments	122,167	47,482	57,152		154,898	84,582	466,281
Accrued interest receivable				495		103	598
Other receivables, net	757			191			948
Due from other funds	186,294					14,038	200,332
Inventories and prepaid items						42,392	42,392
Total Assets	$ 756,437	47,482	74,942	894,061	292,077	845,394	2,910,393
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable and accrued liabilities	$ 66,862	1,943	827	981		35,747	106,360
Due to other funds	2,329	45,539	74,115			78,349	200,332
Total Liabilities	69,191	47,482	74,942	981	-	114,096	306,692
Fund Balances:							
Reserved for:							
Inventory						42,392	42,392
Capital projects						105,432	105,432
Debt service					292,077	110,443	402,520
Unemployment benefits						38,186	38,186
Forestry improvement purposes						270,795	270,795
Undesignated, reported in:							
General Fund	687,246						687,246
Special Revenue Funds				893,080		152,879	1,045,959
Permanent Funds						11,171	11,171
Total Fund Balances	687,246	-	-	893,080	292,077	731,298	2,603,701
Total Liabilities and Fund Balances	$ 756,437	47,482	74,942	894,061	292,077	845,394	2,910,393

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

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

Exhibit C-1

		Amount
Total Fund Balance - Governmental Funds	$	2,603,701
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 $4,090,647.		8,335,006
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		(3,562,272)
3. Governmental funds recognize interest on long-term debt when it becomes due, however the Statement of Net Assets recognizes interest as it accrues.		(73,454)
Total Net Assets - Governmental Activities	$	7,302,981

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

Webster County School District

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2006

Exhibit D

	Major Funds						
	General Fund	Title 1 Fund	IDEA Part B Fund	16th Section Interest Fund	MAEP Retirement Fund	Other Governmental Funds	Total Governmental Funds
Revenues:							
Local sources	$ 2,276,110				4,111	304,849	2,585,070
State sources	7,682,383				309,796	472,826	8,465,005
Federal sources	66,778	492,063	378,211			919,899	1,856,951
Sixteenth section sources				116,633		11,970	128,603
Total Revenues	10,025,271	492,063	378,211	116,633	313,907	1,709,544	13,035,629
Expenditures:							
Instruction	6,490,175	334,255	250,439			1,011,075	8,085,944
Support services	3,062,636	108,496	127,772			914,410	4,213,314
Noninstructional services	6,706	45,041				762,704	814,451
Sixteenth section				1,016			1,016
Debt service:							
Principal					165,000	154,598	319,598
Interest					133,320	4,726	138,046
Other					657		657
Total Expenditures	9,559,517	487,792	378,211	1,016	298,977	2,847,513	13,573,026
Excess (Deficiency) of Revenues over Expenditures	465,754	4,271	-	115,617	14,930	(1,137,969)	(537,397)
Other Financing Sources (Uses):							
Proceeds of loans	39,666					565,000	604,666
Insurance loss recoveries	89,960						89,960
Sale of transportation equipment	5,440						5,440
Operating transfers in	145,575					666,290	811,865
Operating transfers out	(666,290)	(5,998)		(100,000)		(39,577)	(811,865)
Total Other Financing Sources (Uses)	(385,649)	(5,998)	-	(100,000)	-	1,191,713	700,066
Net Change in Fund Balances	80,105	(1,727)	-	15,617	14,930	53,744	162,669
Fund Balances:							
July 1, 2005	607,141	1,727	-	877,463	277,147	670,821	2,434,299
Prior period adjustments						6,710	6,710
July 1, 2005, as restated	607,141	1,727	-	877,463	277,147	677,531	2,441,009
Increase (Decrease) in reserve for inventory						23	23
June 30, 2006	$ 687,246	-	-	893,080	292,077	731,298	2,603,701

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

Webster County School District **Exhibit D-1**

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

		Amount
Net Change in Fund Balances - Governmental Funds	$	162,669
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 $321,928 and the depreciation expense expense amounted to $292,128.		29,800
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 Statement of Activities.		319,598
3. Proceeds of debt incurred during the fiscal year is recorded as revenue in the governmental funds however it is recorded as an increase in long-term liabilities in the Statement of Activities		(604,666)
4. Governmental funds recognize interest on long-term debt when it becomes due, however, the Statement of Activities recognizes interest as it accrues regardless of of when it becomes due.		(12,848)
5. 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.		(21,904)
6. Increase (decrease) in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are (decreased) increased in the Statement of Activities.		23
7. Expenses in the Statement of Activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental governmental funds:		
Compensated absences		179
Change in Net Assets of Governmental Activities	$	(127,149)

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

Webster County School District **Exhibit E**
Statement of Fiduciary Net Assets
June 30, 2006

		Agency Funds
Assets		
Cash and cash equivalents	$	603,935
Other receivables,net		193
Total Assets	$	604,128
Liabilities		
Accounts payable and accrued liabilities	$	514,217
Due to student clubs		89,911
Total Liabilities	$	604,128

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

(1) Summary of Significant Accounting Policies.

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

A. Financial Reporting Entity.

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

B. Basis of Presentation.

The school district's basic financial 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.

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 so have been recognized as revenues of the current fiscal period. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

The school district reports the following major governmental funds:

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

Title 1 Fund – This is a Special Revenue Fund that is used to insure proper disbursement of and accounting for Title I, Part A revenues received by the district.

IDEA Part B Fund – This is a Special Revenue Fund that is used to insure proper disbursement of, and accounting for, EHA Part B revenues received by the district.

Sixteenth Section Interest Fund – This fund accounts for the expendable funds derived from sixteenth section or lieu funds.

MAEP Retirement Fund – This fund accounts for MAEP bonds issued by the State of Mississippi and accounts for repayment of these bonds from revenues received by the State of Mississippi in the district's name.

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

Additionally the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

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

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 *Government Accounting, Auditing, and Financial Reporting* as issued in 2005 by the Government Finance Officers Association and are consistent with the broad classifications recommended in *Financial Accounting for Local and State School systems, 1990* issued by the U.S. Department of Education.

E. Encumbrances.

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

F. Cash and Cash Equivalents.

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

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

G. Investments.

The school district can invest its excess funds, as permitted by Section 29-3-113, 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 deposits are classified as investments if they have a maturity greater than 12 months when acquired.

Investments are reported at fair value.

H. Inventories and prepaid items.

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

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

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

I. Capital Assets.

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

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

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

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

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

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

J. Long-term liabilities.

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

K. Interfund Transactions and Balances.

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

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

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

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

L. Equity Classifications.

Government-Wide Financial Statements:

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

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

b. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

c. Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statements:

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

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

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

Reserved for capital projects – An account that represents that portion of fund balance in the Capital Projects Fund which was legally restricted and not available for spending for any other purpose than that for which it is restricted.

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

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 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 only the compensated absence liability payable from expendable available financial resources only if the payable has matured, for example, an employee retires.

(2) Changes in Accounting Standards.

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

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

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

Deposits: The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for school district's deposits in financial institutions are 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, Unites 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 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 $2,062,663 and $603,935 respectively. The carrying amount of deposits reported in the government-wide financial statements was: Cash and Cash Equivalents - $2,051,492 and Restricted Assets - $11,171. The Restricted Assets of $11,171 represents 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 $3,132,166.

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 $3,132,166 was exposed to custodial credit risk.

(4) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

		Due From	Due To
Governmental Funds:			
General Fund	$	186,294	2,329
Title I Fund			45,539
IDEA Part B Fund			74,115
Other Governmental Funds		14,038	78,349
Total	$	200,332	200,332

Due from's and to's were adjustments to correct deficit cash balances.

B. Transfers In/Out.

		Transfer In	Transfer Out
Governmental Funds:			
General fund	$	145,575	666,290
Title I Fund			5,998
Sixteenth Section Interest Fund			100,000
Other Governmental Funds		666,290	39,577
Total	$	811,865	811,865

Transfers in and out were for funding of salaries, debt, and indirect cost.

(5) Capital Assets.

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

	Balance 7-1-2005	Additions	Retirements	Balance 6-30-2006
Non-depreciable capital assets				
Land	$ 104,048	-	-	104,048
Total non-depreciable capital assets	104,048	-	-	104,048
Depreciable capital assets:				
Buildings	10,464,615	-	-	10,464,615
Improvements other than buildings	207,480		-	207,480
Mobile equipment	1,397,720	313,716	(219,040)	1,492,396
Furniture and equipment	148,902	8,212		157,114
Total depreciable capital assets	12,218,717	321,928	(219,040)	12,321,605
Less accumulated depreciation for:				
Buildings	2,710,881	188,437	-	2,899,318
Improvements other than buildings	125,326	4,405	-	129,731
Mobile equipment	1,033,559	87,572	(197,136)	923,995
Furniture and equipment	125,889	11,714		137,603
Total accumulated depreciation	3,995,655	292,128	(197,136)	4,090,647
Total depreciable capital assets, net	8,223,062	29,800	(21,904)	8,230,958
Governmental activities capital assets, net	$ 8,327,110	29,800	(21,904)	8,335,006

Depreciation expense was charged to the following governmental functions:

		Amount
Instruction	$	3,382
Support services		288,039
Non-instructional		707
Total depreciation expense	$	292,128

(6) Long-term liabilities:

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

		Balance 7-1-2005	Additions	Reductions	Balance 6-30-2006	Amounts due Within one Year
A. Limited obligation bonds payable	$	3,025,000		(165,000)	2,860,000	170,000
B. Building purpose loans payable		65,339	565,000	(65,339)	565,000	47,800
C. Shortfall notes payable		103,259	39,666	(89,259)	53,666	19,499
D. Compensated absences payable		83,785	-	(179)	83,606	-
Total	$	3,277,383	604,666	(319,777)	3,562,272	237,299

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:

Description	Interest Rate	Issue Date	Maturity Date		Amount Issued	Amount Outstanding
State aid capital improvement Bonds, Series 1998	Varies	2/01/1998	2/01/2018	$	3,700,000	2,860,000
Total				$	3,700,000	2,860,000

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

Year Ending June 30		Principal	Interest	Total
2007	$	170,000	125,460	295,460
2008		180,000	118,065	298,065
2009		185,000	110,263	295,263
2010		195,000	101,995	296,995
2011		205,000	93,195	298,195
2012-2016		1,165,000	317,432	1,482,432
2017-2021		760,000	46,413	806,413
Total	$	2,860,000	912,823	3,772,823

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.

B. Building purpose loans payable.

Debt currently outstanding are as follows:

Description	Interest Rate	Issue Date	Maturity Date		Amount Issued	Amount Outstanding
Hancock Bank, Series 2005	3.66%	08/04/2005	08/04/2015	$	565,000	565,000
Total				$	565,000	565,000

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

Year Ending June 30		Principal	Interest	Total
2007	$	47,800	20,679	68,479
2008		49,600	18,930	68,530
2009		51,400	17,114	68,514
2010		53,300	15,233	68,533
2011		55,200	13,282	68,482
2012-2016		307,700	34,590	342,290
Total	$	565,000	119,828	684,828

The debt will be retired from the 4091 Series 2005, Note Retirement Fund.

C. Shortfall notes payable.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date		Amount Issued	Amount Outstanding
Revenue Shortfall Note, Series 2004	3.98%	10/15/2004	10/15/2007	$	21,000	14,000
Revenue Shortfall Note, Series 2005	5.68%	09/29/2005	09/29/2008		39,666	39,666
Total				$	60,666	53,666

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

Year Ending June 30		Principal	Interest	Total
2007	$	19,499	2,810	22,309
2008		20,208	1,822	22,030
2009		13,959	793	14,752
Total	$	53,666	5,425	59,091

This debt will be retired from the (4011) Shortfall Note Retirement Fund.

D. Compensated absences payable

As more fully explained in Note 1(0), compensated absences payable is adjusted on an annual basis as required by Section 37-7-307(5), Miss. Code Ann. (1972). Compensated absences will be paid from the fund from which the employees' salaries were paid.

(7) Defined Benefit Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The current rate is 10.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2006, 2005 and 2004 were $827,340, $698,127 and $679,398 respectively, which equaled the required contributions for each year.

(8) Sixteenth Section Lands.

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

Year Ending June 30		Amount
2007		61,735
2008		61,458
2009		61,445
2010		2,945
2011		415
2012-2016		755
2017-2021		175
2022-2026		175
2027-2031		175
Thereafter		490
Total	$	189,768

(9) Prior Period Adjustment/Exhibits.

A summary of significant fund equity adjustments is as follows:

Exhibit B – Statement of Activities

Explanations		
1. Overestimate for prior year accrual	$	6,710
Total	$	6,710

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

	Explanations		
Other governmental funds	Overestimate for prior year accrual	$	6,710
	Total	$	6,710

(10) Subsequent Events.

On September 12, 2006, the district approved the issuance of a shortfall note with Hancock Bank in the amount of $34,840.

(11) Risk Management.

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

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

WEBSTER COUNTY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

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

	Budgeted Amounts		Actual	Variances Positive (Negative)	
	Original	Final	(GAAP Basis)	Original to Final	Final to Actual
Revenues:					
Local sources	$ 2,126,495	2,276,207	2,276,110	149,712	(97)
State sources	7,653,984	7,682,382	7,682,383	28,398	1
Federal sources	60,400	66,778	66,778	6,378	0
Total Revenues	9,840,879	10,025,367	10,025,271	184,488	(96)
Expenditures:					
Instruction	6,400,312	6,513,614	6,490,175	(113,302)	23,439
Support services	2,933,249	3,109,622	3,062,636	(176,373)	46,986
Noninstructional services		6,706	6,706	(6,706)	0
Total Expenditures	9,333,561	9,629,942	9,559,517	(296,381)	70,425
Excess (Deficiency) of Revenues over Expenditures	507,318	395,425	465,754	(111,893)	70,329
Other Financing Sources (Uses):					
Proceeds of loans	20,000	39,666	39,666	19,666	0
Insurance loss recoveries		89,960	89,960	89,960	0
Sale of transportation equipment		5,440	5,440	5,440	0
Operating transfers in	1,088,161	1,098,074	145,575	9,913	952,499
Operating transfers out	(1,646,232)	(1,619,054)	(666,290)	27,178	(952,764)
Total Other Financing Sources (Uses)	(538,071)	(385,914)	(385,649)	152,157	(265)
Net Change in Fund Balances	(30,753)	9,511	80,105	40,264	70,594
Fund Balances:					
July 1, 2005	607,141	607,141	607,141	0	0
June 30, 2006	$ 576,388	616,652	687,246	40,264	70,594

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

Webster County School District
Budgetary Comparison Schedule
Title 1 Fund
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variances Positive (Negative)	
	Original	Final	(GAAP Basis)	Original to Final	Final to Actual
Revenues:					
Federal sources	$ 759,867	810,706	492,063	50,839	(318,643)
Total Revenues	759,867	810,706	492,063	50,839	(318,643)
Expenditures:					
Instruction	349,671	362,953	334,255	(13,282)	28,698
Support services	132,540	129,694	108,496	2,846	21,198
Noninstructional services	58,659	58,127	45,041	532	13,086
Total Expenditures	540,870	550,774	487,792	(9,904)	62,982
Excess (Deficiency) of Revenues over Expenditures	218,997	259,932	4,271	40,935	(255,661)
Other Financing Sources (Uses):					
Operating transfers out	(7,102)	(7,102)	(5,998)	0	(1,104)
Total Other Financing Sources (Uses)	(7,102)	(7,102)	(5,998)	0	(1,104)
Net Change in Fund Balances	211,895	252,830	(1,727)	40,935	(254,557)
Fund Balances:					
July 1, 2005	1,847	1,847	1,727	0	(120)
June 30, 2006	$ 213,742	254,677	0	40,935	(254,677)

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

Webster County School District
Budgetary Comparison Schedule
IDEA Part B Fund
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variances Positive (Negative)	
	Original	Final	(GAAP Basis)	Original to Final	Final to Actual
Revenues:					
Federal sources	$ 563,847	577,141	378,211	13,294	(198,930)
Total Revenues	563,847	577,141	378,211	13,294	(198,930)
Expenditures:					
Instruction	230,944	274,199	250,439	(43,255)	23,760
Support services	149,193	141,394	127,772	7,799	13,622
Total Expenditures	380,137	415,593	378,211	(35,456)	37,382
Excess (Deficiency) of Revenues over Expenditures	183,710	161,548	0	(22,162)	(161,548)
Other Financing Sources (Uses):					
Operating transfers out				0	0
Total Other Financing Sources (Uses)	0	0	0	0	0
Net Change in Fund Balances	183,710	161,548	0	(22,162)	(161,548)
Fund Balances:					
July 1, 2005	20	20	0	0	(20)
June 30, 2006	$ 183,730	161,568	0	(22,162)	(161,568)

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

Webster County School District
Budgetary Comparison Schedule
16th Section Interest Fund
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variances Positive (Negative)	
	Original	Final	(GAAP Basis)	Original to Final	Final to Actual
Revenues:					
Sixteenth section sources	$ 174,600	116,633	116,633	(57,967)	0
Total Revenues	174,600	116,633	116,633	(57,967)	0
Expenditures:					
Sixteenth section	1,600	1,682	1,016	(82)	666
Total Expenditures	1,600	1,682	1,016	(82)	666
Excess (Deficiency) of Revenues over Expenditures	173,000	114,951	115,617	(58,049)	666
Other Financing Sources (Uses):					
Operating transfers out	(60,000)	(100,000)	(100,000)	(40,000)	0
Total Other Financing Sources (Uses)	(60,000)	(100,000)	(100,000)	(40,000)	0
Net Change in Fund Balances	113,000	14,951	15,617	(98,049)	666
Fund Balances:					
July 1, 2005	877,463	877,463	877,463	0	0
June 30, 2006	$ 990,463	892,414	893,080	(98,049)	666

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

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

Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(2) Budget amendments and revisions.

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

WEBSTER COUNTY SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

WEBSTER 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 No.	Federal Expenditures
U.S. Department of Agriculture		
Passed through the Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	$ 49,884
Child nutrition cluster		
School breakfast program	10.553	125,489
National school lunch program	10.555	390,115
Total child nutrition cluster		515,604
Total U.S. Department of Agriculture		565,488
Federal Communications Commission		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.XXX	44,177
Total Federal Communications Commission		44,177
U.S. Department of Education		
Passed through the Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	493,790
Vocational education - basic grants to states	84.048	23,583
Safe and drug free schools and communities - state grants	84.186	17,002
Eisenhower professional development state grants	84.281	162,437
State grants for innovative programs	84.298	6,661
Education technology state grants	84.318	23,324
Rural education	84.358	45,393
Grants for state assessments and related activities	84.369	3,478
Hurricane education recovery act programs - restart	84.938	32,890
Total		808,558
Special education cluster:		
Special education - grants to states	84.027	378,211
Special Education - preschool grants	84.173	16,603
Total Special Education Cluster		394,814
Total passed through Mississippi Department of Education		1,203,372
Total U.S. Department of Education		1,203,372
U.S. Department of Health and Human Services		
Passed-through Mississippi Department of Health and Human Services:		
Medical assistance program	93.778	13,754
Total U.S. Department of Health and Human Services		13,754
Total for All Federal Awards		$ 1,826,791

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.

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

Expenditures		Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	$	10,322,284	7,362,352	374,369	723,751	1,861,812
Other		3,250,742	723,592	76,572	17,345	2,433,233
Total	$	13,573,026	8,085,944	450,941	741,096	4,295,045
Total number of students *		1,706				
Cost per student	$	7,956	4,740	264	434	2,518

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

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

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

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

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

include 100 and 200 range object codes on the "Salaries and fringe benefits" line; all other expenditures on the "Other" line

WEBSTER COUNTY SCHOOL DISTRICT

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

Watkins, Ward and Stafford
Professional Limited Liability Company
Certified Public Accountants

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

December 13, 2006

Superintendent and School Board
Webster County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Webster County School District as of and for the year ended June 30, 2006, which collectively comprise the Webster County School District's basic financial statements and have issued our report thereon dated December 13, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the school district's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the school district's ability to initiate, record, process, summarize and report financial data consistent with the assertions of managemnt in the financial statements. The reportable condition is described in the Schedule of Findings and Questioned Costs as Finding 06-01.

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 necessairly disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described in the finding referred to above is not a material weakness.

Compliance and Other Matters

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

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

Watkins, Ward and Stafford, PLLC
Louisville, Mississippi
December 13, 2006

Watkins, Ward and Stafford, PLLC

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

December 13, 2006

Superintendent and School Board
Webster County School District

Compliance

We have audited the compliance of the Webster 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 its major federal program for the year ended June 30, 2006. The school district's major federal program is 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 its major federal program 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, Webster County School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the school district's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the Schedule of Findings and Questioned Costs as Finding 06-02.

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

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.

Watkins, Ward and Stafford, PLLC
Louisville, Mississippi
December 13, 2006

Watkins, Ward and Stafford, PLLC

WEBSTER COUNTY SCHOOL DISTRICT

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

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

December 13, 2006

Superintendent and School Board
Webster County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Webster County School District as of and for the year ended June 30, 2006, which collectively comprise Webster County School District's basic financial statements and have issued our report thereon dated December 13, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Section 37-9-18(3), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure that the school district is complying with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds". As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain other 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 result 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 $21,761 of classroom supply funds carried over from previous years.

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

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

Watkins, Ward and Stafford, PLLC
Louisville, Mississippi
December 13, 2006

Watkins, Ward and Stafford, PLLC

WEBSTER COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

WEBSTER COUNTY SCHOOL DISTRICT

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

Section 1: Summary of Auditor's Results

Financial Statements:

1. Type of auditor's report issued on the financial statements:	Unqualified
2. Material noncompliance relating to the financial statements?	No
3. Internal control over financial reporting:	
a. Material weakness(es) identified?	No
b. Reportable condition(s) identified that are not considered to be material weaknesses?	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?	Yes
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	
8. The dollar threshold used to distinguish between type A and B programs.	$300,000
9. Auditee qualified as a low-risk auditee?	Yes
10. Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary of prior audit findings as discussed in Section __.315(b) of OMB Circular A-133?	No

WEBSTER COUNTY SCHOOL DISTRICT

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

Section 2: Financial Statement Findings

06-01 Finding

Per examination of a sample of daily receipts at the East Webster Elementary School Cafeteria, it was noted that the cafeteria manager or cashier for the day were not signing the applicable daily sales reconciliation sheet that is filed with the deposit in the central office for inspection by the child nutrition supervisor

Recommendation

We recommend that all lunch room daily sales reconciliation sheets be signed by the applicable cafeteria manager and cashier prior to filing in the central office to verify cash receipts for that day's deposit.

Section 3: Federal Award Findings and Questioned Costs

06-02 Finding

Program: (Child nutrition cluster CFDA# 10.553 and # 10.555; U.S. Department of Agriculture)

Compliance requirement: Program income

The school district is to put in place a mechanism to ensure that program income is properly recorded as earned and deposited in the bank as collected. For internal control purposes the district has established daily cash collection and sales reconciliation sheets for collection of lunch sales at each applicable cafeteria. Per examination of daily receipts at the East Webster Elementary School Cafeteria it was noted the cafeteria manager or cashier were not signing these sheets verifying the reconciliation at the end of each day.

Questioned Costs: None

Recommendation

We recommend that all lunch room daily sales reconciliation sheets be signed by the applicable cafeteria manager and cashier prior to filing in the central office to verify cash receipts for that day's deposit.

WEBSTER COUNTY SCHOOL DISTRICT

CORRECTIVE ACTION PLAN

Webster County Schools

PHONE 662-258-5921 OR 662-258-5951 • FAX 662-258-3134
212 WEST CLARK AVENUE • EUPORA, MISSISSIPPI 39744

JIMMY PITTMAN
SUPERINTENDENT OF EDUCATION

FINANCIAL & COMPLIANCE AUDIT DIVISION

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

Finding	Corrective Action Plan Details
06-2	a. The person responsible for making sure the finding is corrected is Naioma Lamb, Food Service Director. Her phone number is 662-258-5921, ext. 18. b. The cafeteria managers and cashiers have been instructed to verify and sign all daily sales reconciliation sheets prior to filing in the central office. c. This corrective action plan has already been implemented.