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ALCORN SCHOOL DISTRICT
AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

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

Superintendent and School Board
Alcorn School District

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Alcorn School District as of and for the year ended June 30, 2005, which collectively comprise the Alcorn School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Alcorn 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 Alcorn School District at June 30, 2005, 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 September 22, 2006, on our consideration of the Alcorn 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 and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8 and the Budgetary Comparison Schedules and corresponding notes on pages 33 through 38 are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and we express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Alcorn 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 financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Brewer Vanhook & Company, P.A.

September 22, 2006
Corinth, Mississippi

**ALCORN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

This discussion and analysis of Alcorn School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2005. 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 selection 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 decreased \$315,790, which represents a 2.46% decrease from fiscal year 2004.

General revenues account for \$21,098,193 in revenue, or 77.49% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$6,129,613 or 22.51% of total revenues.

The District had \$27,543,596 in expenses; only \$6,129,613 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$21,098,193 were not adequate to provide for these programs, as the District had to utilize \$315,790 of fund balance.

Among major funds, the General Fund had \$21,608,886 in revenues and \$21,824,537 in expenditures. The General Fund's fund balance decreased \$216,384 from the prior year.

Capital assets, net of accumulated depreciation, decreased by \$498,550.

Long-term debt decreased by \$621,075.

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.

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.

**ALCORN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

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* issued by the Mississippi Office of the State Auditor. 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.

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.

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 and can be found in this report.

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 \$12,532,996 as of June 30, 2005.

By far the largest portion of the District's net assets 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), 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.

**ALCORN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

Table 1 presents a summary of the District's net assets for the fiscal year ended June 30, 2005, compared to June 30, 2004.

**Table 1
Condensed Statement of Net Assets**

| | 2005 | 2004 | Increase (Decrease) | Percent Increase (Decrease) |
|--|----------------------|----------------------|------------------------|-----------------------------------|
| Current Assets | \$ 3,550,623 | \$ 3,990,711 | \$ (440,088) | -11.03% |
| Capital Assets, Net | 15,987,135 | 16,485,685 | (498,550) | -3.02% |
| Total Assets | <u>19,537,758</u> | <u>20,476,396</u> | <u>(938,638)</u> | -4.58% |
| Current Liabilities | 159,481 | 216,173 | (56,692) | -26.23% |
| Long-Term Debt Outstanding | 6,845,281 | 7,466,356 | (621,075) | -8.32% |
| Total Liabilities | <u>7,004,762</u> | <u>7,682,529</u> | <u>(677,767)</u> | -8.82% |
| Net Assets: | | | | |
| Invested in Capital Assets, Net of Related Debt | 9,379,733 | 9,258,906 | 120,827 | 1.30% |
| Restricted | 1,315,434 | 1,477,508 | (162,074) | -10.97% |
| Unrestricted | 1,837,829 | 2,057,453 | (219,624) | -10.67% |
| Total Net Assets | <u>\$ 12,532,996</u> | <u>\$ 12,793,867</u> | <u>\$ (260,871)</u> | -2.04% |

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2005, were \$27,227,806. The total cost of all programs and services was \$27,543,596. Table 2 presents a summary of the changes in net assets for the fiscal year ended June 30, 2005, compared to June 30, 2004:

**Table 2
Changes in Net Assets**

| | 2005 | 2004 | Increase (Decrease) | Percent Increase (Decrease) |
|--|---------------------|---------------------|------------------------|-----------------------------------|
| Revenues: | | | | |
| Program Revenues | \$ 6,129,613 | \$ 5,503,313 | \$ 626,300 | 11.38% |
| General Revenues | 21,098,193 | 20,891,499 | 206,694 | 0.99% |
| Total Revenues | <u>27,227,806</u> | <u>26,394,812</u> | <u>832,994</u> | 3.16% |
| Expenses: | | | | |
| Instruction | 17,820,435 | 16,765,375 | 1,055,060 | 6.29% |
| Support Services | 7,751,105 | 6,869,036 | 882,069 | 12.84% |
| Non-Instructional | 1,652,368 | 1,339,404 | 312,964 | 23.37% |
| Interest on Long-Term Liabilities | 319,688 | 346,382 | (26,694) | -7.71% |
| Total Expenses | <u>27,543,596</u> | <u>25,320,197</u> | <u>2,223,399</u> | 8.78% |
| Increase (Decrease) in Net Assets | <u>\$ (315,790)</u> | <u>\$ 1,074,615</u> | <u>\$ (1,390,405)</u> | -129.39% |

**ALCORN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

Governmental activities. The following table presents the cost of four major District functional activities: instruction, support services, non-instructional 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.

**Table 3
Net Cost of Governmental Activities**

| | Total Expenses | | Total | Net (Expense) Revenue | | Total |
|--------------------------------------|-----------------------------|-----------------------------|--------------|------------------------------|------------------------------|---------------|
| | 2005 | 2004 | Percentage | 2005 | 2004 | Percentage |
| | | | Change | | | Change |
| Instruction | \$ 17,820,435 | \$ 16,765,375 | 6.29% | \$(14,210,169) | \$(13,448,606) | -5.66% |
| Support Services | 7,751,105 | 6,869,036 | 12.84% | (6,919,735) | (6,072,820) | -13.95% |
| Non-Instructional | 1,652,368 | 1,339,404 | 23.37% | 35,609 | 50,924 | 30.07% |
| Interest on Long-Term Liabilities | <u>319,688</u> | <u>346,382</u> | -7.71% | <u>(319,688)</u> | <u>(346,382)</u> | 7.71% |
| Total Expenses | <u>\$ 27,543,596</u> | <u>\$ 25,320,197</u> | 8.78% | <u>\$(21,413,983)</u> | <u>\$(19,816,884)</u> | -8.06% |

Net cost of governmental activities \$21,413,983 was financed by general revenue, which is made up of primarily property and privilege taxes of \$4,512,006 and state revenue of \$15,967,412.

Investment earnings accounted for \$94,747 of general revenues.

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, outflow 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 \$3,516,352, a decrease of \$446,162. \$2,358,649 or 67.08% 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 \$1,157,703 or 32.92% 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 decrease in fund balance in the General Fund for the fiscal year was \$216,384. The fund balance of Other Governmental Funds showed a decrease of \$237,647.

**ALCORN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget. Significant changes are noted below.

General Fund

Budgeted Revenues were adjusted primarily to reflect an increase in state revenues to cover additional teaching staff. Expenditures were adjusted to reflect employment of additional teaching staff for the growing number of students. Additional expenditures were also necessary for textbooks and supplies and salary adjustments approved after the original budget was approved.

Major Special Revenue Funds

All major Special Revenue funds were adjusted to reflect the final allocations from the Mississippi Department of Education. The final allocations to the District were not known until after the original budget was adopted.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2005, the District's total capital assets were \$31,170,381, including land, school buildings, buses, other school vehicles, and furniture and equipment. This amount represents an increase of \$141,187 from the previous year. Total accumulated depreciation as of June 30, 2005 was \$15,183,246 and total depreciation expense for the year was \$694,586, resulting in total net assets of \$15,987,135.

Additional information of the District's capital assets can be found in this report. Table 4 shows fiscal year ended June 30, 2005, as compared to fiscal year ended June 30, 2004.

**Table 4
Capital Assets at June 30, 2005 and 2004 (Net of Depreciation)**

| | 2005 | 2004 | Increase (Decrease) | Percent Increase (Decrease) |
|--------------------------------------|-----------------------------|-----------------------------|----------------------------|-----------------------------------|
| Land | \$ 239,502 | \$ 239,502 | \$ - | 0.00% |
| Construction in Progress | - | 32,918 | (32,918) | -100.00% |
| Buildings | 12,872,201 | 13,255,149 | (382,948) | -2.89% |
| Building Improvements | 1,587,676 | 1,469,829 | 117,847 | 8.02% |
| Mobile Equipment | 622,636 | 739,530 | (116,894) | -15.81% |
| Furniture and Equipment | 181,128 | 202,488 | (21,360) | -10.55% |
| Leased Property Under Capital Assets | 483,992 | 546,269 | (62,277) | -11.40% |
| Totals | <u>\$ 15,987,135</u> | <u>\$ 16,485,685</u> | <u>\$ (498,550)</u> | -3.02% |

**ALCORN SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

Debt Administration. At June 30, 2005, the District had \$6,845,281 in long-term debt outstanding, of which \$537,812 is due within one year.

Table 5 shows fiscal year ended June 30, 2005, as compared to fiscal year ended June 30, 2004:

**Table 5
Long-Term Debt Outstanding at June 30, 2005 and June 30, 2004**

| | 2005 | 2004 | Increase (Decrease) | Percent Increase (Decrease) |
|--|---------------------|---------------------|------------------------|-----------------------------------|
| Limited Obligation Bonds Payable | \$ 5,735,000 | \$ 6,025,000 | \$ (290,000) | -4.81% |
| Three Mill Notes Payable | 31,000 | 131,000 | (100,000) | -76.34% |
| Transportation Equipment Loans Payable | 345,000 | 470,000 | (125,000) | -26.60% |
| Obligations Under Capital Leases | 496,402 | 605,717 | (109,315) | -18.05% |
| Compensated Absences Payable | 237,879 | 234,639 | 3,240 | 1.38% |
| Totals | \$ 6,845,281 | \$ 7,466,356 | \$ (621,075) | -8.32% |

CURRENT ISSUES

The Alcorn 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 rate remains the same at 45.35 mills for the 2005-2006 year. The school district plans to continue its sound fiscal management to meet the challenges of the future.

The latest enrollment figures indicate that student enrollment in the District will continue to increase slightly. Therefore, no decrease in funds for the following year is expected.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Alcorn School District, P.O. Box 1420, Corinth, MS 38835.

**ALCORN SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005**

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| ASSETS | |
| Cash and Cash Equivalents | \$ 2,432,946 |
| Due From Other Governments | 875,006 |
| Inventories and Prepaid Items | 70,505 |
| Restricted Assets | 172,166 |
| Capital Assets, Net | <u>15,987,135</u> |
| Total Assets | <u>19,537,758</u> |
| LIABILITIES | |
| Accounts Payable and Accrued Liabilities | 18,666 |
| Deferred Revenue | 15,605 |
| Interest Payable on Long Term Liabilities | 125,210 |
| Long-Term Liabilities (due within one year) | |
| Capital Related Liabilities | 537,812 |
| Long-Term Liabilities (due beyond one year) | |
| Capital Related Liabilities | 6,069,590 |
| Non-Capital Liabilities | <u>237,879</u> |
| Total Liabilities | <u>7,004,762</u> |
| NET ASSETS | |
| Invested in Capital Assets, Net of Related Debt | 9,379,733 |
| Restricted Net Assets: | |
| Capital Improvements | 84,229 |
| School-Based Activities | 586,706 |
| Debt Service | 581,732 |
| Unemployment Benefits | 62,767 |
| Unrestricted | <u>1,837,829</u> |
| Total Net Assets | <u>\$ 12,532,996</u> |

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

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ALCORN SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Exhibit B

| Functions/Programs | Expenses | Program Revenues | | | Total | Net (Expense) Revenue and Changes in Net Assets Primary Governmental Governmental Activities |
|---------------------------------------|----------------------|-------------------------|--|--|---------------------|---|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | | |
| Governmental Activities: | | | | | | |
| Instruction | \$ 17,820,435 | \$ 1,011,049 | \$ 2,434,286 | \$ 164,931 | \$ (14,210,169) | |
| Support Services | 7,751,105 | 731 | 830,639 | - | (6,919,735) | |
| Non-Instructional Services | 1,652,368 | 399,433 | 1,288,544 | - | 35,609 | |
| Interest on Long-Term Liabilities | 319,688 | - | - | - | (319,688) | |
| Total Governmental Activities | \$ 27,543,596 | \$ 1,411,213 | \$ 4,553,469 | \$ 164,931 | (21,413,983) | |
| General Revenues | | | | | | |
| Taxes: | | | | | | |
| General Purpose Levies | | | | | | 4,187,663 |
| Debt Service Levies | | | | | | 324,343 |
| Unrestricted Grants and Contributions | | | | | | |
| State | | | | | | 15,967,412 |
| Federal | | | | | | 211,145 |
| Unrestricted Investment Earnings | | | | | | 94,747 |
| Other Revenues | | | | | | 312,883 |
| Total General Revenues | | | | | | 21,098,193 |
| Change in Net Assets | | | | | | (315,790) |
| Net Assets - Beginning | | | | | | 12,793,867 |
| Prior Period Adjustment (Note 9) | | | | | | 54,919 |
| Net Assets - Beginning, as Restated | | | | | | 12,848,786 |
| Net Assets-Ending | | | | | | \$ 12,532,996 |

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

ALCORN SCHOOL DISTRICT
 COMBINED BALANCE SHEET - GOVERNMENTAL FUNDS
 JUNE 30, 2005

| | Major Funds | | |
|--|----------------------------|-------------------------|-------------------------|
| | General Fund | Title I Fund | Title II Fund |
| ASSETS | | | |
| Cash and Cash Equivalents | \$ 1,533,712 | \$ - | \$ - |
| Investments | - | - | - |
| Due from Other Governments | 227,918 | 72,748 | 36,409 |
| Due From Other Funds | 338,027 | - | - |
| Inventories and Prepaid Items | - | - | - |
| Total Assets | <u>2,099,657</u> | <u>72,748</u> | <u>36,409</u> |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities | | | |
| Deferred Revenue | \$ - | \$ - | \$ - |
| Due to Other Governments | - | - | - |
| Due To Other Funds | <u>23,949</u> | <u>72,748</u> | <u>36,409</u> |
| Total Liabilities | <u>23,949</u> | <u>72,748</u> | <u>36,409</u> |
| Fund Balances | | | |
| Reserved for: | | | |
| Inventory | - | - | - |
| Prepaid Items | - | - | - |
| Capital Projects | - | - | - |
| Debt Service | - | - | - |
| Unemployment | - | - | - |
| Ad Valorem | 50,118 | - | - |
| Unreserved: | | | |
| Undesignated, Reported in: | | | |
| Special Revenue Funds | - | - | - |
| General Fund | <u>2,025,590</u> | - | - |
| Total Fund Balances | <u>2,075,708</u> | <u>-</u> | <u>-</u> |
| Total Liabilities and Fund Balances | <u>\$ 2,099,657</u> | <u>\$ 72,748</u> | <u>\$ 36,409</u> |

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

Exhibit C

| Major Funds (Continued) | | | | |
|-------------------------|---|----------------------------|--------------------------------|--------------------------------|
| IDEA Part B Fund | 21st Century Learning Center Fund | MAEP Retirement Fund | Other Governmental Funds | Total Governmental Funds |
| \$ - | \$ - | \$ - | \$ 899,234 | \$ 2,432,946 |
| - | - | 172,166 | - | 172,166 |
| 94,108 | 115,710 | 288,312 | 39,801 | 875,006 |
| - | - | - | 23,949 | 361,976 |
| - | - | - | 70,505 | 70,505 |
| <u>94,108</u> | <u>115,710</u> | <u>460,478</u> | <u>1,033,489</u> | <u>3,912,599</u> |
| \$ - | \$ - | \$ - | \$ 15,605 | \$ 15,605 |
| - | - | - | 18,666 | 18,666 |
| 94,108 | 115,710 | - | 19,052 | 361,976 |
| <u>94,108</u> | <u>115,710</u> | <u>-</u> | <u>53,323</u> | <u>396,247</u> |
| - | - | - | 33,005 | 33,005 |
| - | - | - | 37,500 | 37,500 |
| - | - | - | 84,229 | 84,229 |
| - | - | 460,478 | 246,464 | 706,942 |
| - | - | - | 62,767 | 62,767 |
| - | - | - | - | 50,118 |
| - | - | - | 516,201 | 516,201 |
| - | - | - | - | 2,025,590 |
| <u>-</u> | <u>-</u> | <u>460,478</u> | <u>980,166</u> | <u>3,516,352</u> |
| <u>\$ 94,108</u> | <u>\$ 115,710</u> | <u>\$ 460,478</u> | <u>\$ 1,033,489</u> | <u>\$ 3,912,599</u> |

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**ALCORN SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET ASSETS
JUNE 30, 2005**

| | <u>Amount</u> |
|---|----------------------|
| Total Fund Balance - Governmental Funds | \$ 3,516,352 |
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| 1. Capital assets are used in governmental activities, are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$15,183,246 | 15,987,135 |
| 2. Long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds | (6,845,281) |
| 3. Accrued interest on debt not due and payable in the current period and therefore, not reported in the funds | <u>(125,210)</u> |
| Total Net Assets - Governmental Activities | <u>\$ 12,532,996</u> |

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

**ALCORN SCHOOL DISTRICT
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005**

| | Major Funds | | |
|--|---------------------|-----------------|------------------|
| | General Fund | Title I Fund | Title II Fund |
| Revenues | | | |
| Local Sources | \$ 5,521,021 | \$ - | \$ - |
| State Sources | 15,876,720 | - | - |
| Federal Sources | 211,145 | 556,203 | 191,797 |
| Total Revenues | <u>21,608,886</u> | <u>556,203</u> | <u>191,797</u> |
| Expenditures | | | |
| Instruction | 15,000,674 | 444,679 | 149,141 |
| Support Services | 6,650,369 | 107,360 | 42,656 |
| Non-Instructional Services | 12,732 | 4,164 | - |
| Facilities Acquisition and Construction | 159,621 | - | - |
| Debt Service: | | | |
| Principal | 1,141 | - | - |
| Interest | - | - | - |
| Total Expenditures | <u>21,824,537</u> | <u>556,203</u> | <u>191,797</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>(215,651)</u> | <u>-</u> | <u>-</u> |
| Other Financing Sources (Uses) | | | |
| Insurance Recoveries | 2,117 | - | - |
| Operating Transfers In | 3,150 | - | - |
| Operating Transfers Out | (6,000) | - | - |
| Total Other Financing Sources (Uses) | <u>(733)</u> | <u>-</u> | <u>-</u> |
| Net Change in Fund Balances | <u>(216,384)</u> | <u>-</u> | <u>-</u> |
| Fund Balances: | | | |
| July 1, 2004 | <u>2,292,092</u> | <u>-</u> | <u>-</u> |
| Decrease in Reserve for Inventory | <u>-</u> | <u>-</u> | <u>-</u> |
| June 30, 2005 | <u>\$ 2,075,708</u> | <u>\$ -</u> | <u>\$ -</u> |

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

Exhibit D

| Major Funds (Continued) | | | | |
|-------------------------|---|----------------------------|--------------------------------|--------------------------------|
| IDEA Part B Fund | 21st Century Learning Center Fund | MAEP Retirement Fund | Other Governmental Funds | Total Governmental Funds |
| \$ - | \$ - | \$ 1,108 | 806,602 | 6,328,731 |
| - | - | 576,625 | 942,740 | 17,396,085 |
| <u>742,762</u> | <u>441,766</u> | <u>-</u> | <u>1,357,200</u> | <u>3,500,873</u> |
| <u>742,762</u> | <u>441,766</u> | <u>577,733</u> | <u>3,106,542</u> | <u>27,225,689</u> |
| 463,695 | 141,506 | - | 1,182,826 | 17,382,521 |
| 281,847 | 43,982 | - | 427,736 | 7,553,950 |
| - | 253,128 | - | 1,351,128 | 1,621,152 |
| - | - | - | - | 159,621 |
| - | - | 290,000 | 333,174 | 624,315 |
| - | - | 277,084 | 55,325 | 332,409 |
| <u>745,542</u> | <u>438,616</u> | <u>567,084</u> | <u>3,350,189</u> | <u>27,673,968</u> |
| <u>(2,780)</u> | <u>3,150</u> | <u>10,649</u> | <u>(243,647)</u> | <u>(448,279)</u> |
| - | - | - | - | 2,117 |
| - | - | - | 6,000 | 9,150 |
| - | (3,150) | - | - | (9,150) |
| - | (3,150) | - | 6,000 | 2,117 |
| <u>(2,780)</u> | <u>-</u> | <u>10,649</u> | <u>(237,647)</u> | <u>(446,162)</u> |
| <u>2,780</u> | <u>-</u> | <u>449,829</u> | <u>1,222,687</u> | <u>3,967,388</u> |
| - | - | - | (4,874) | (4,874) |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ 460,478</u> | <u>\$ 980,166</u> | <u>\$ 3,516,352</u> |

**ALCORN 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, 2005**

| | <u>Amount</u> |
|--|---------------------|
| Net Change in Fund Balances - Governmental Funds | \$ (446,162) |
| 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 purchase amounted to \$207,187 and the depreciation expense amounted to \$694,586 | (487,399) |
| 2. Payments 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 | 624,315 |
| 3. Increase in compensated absences is not reported in the governmental funds, but it increases expenses in the Statement of Activities. | (3,240) |
| 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 when it become due | 12,721 |
| 5. Decrease in the inventory is reported as a decrease to the reserve for inventory in the governmental funds, but non-instructional expenditures are decreased in the Statement of Activities | (4,874) |
| 6. Losses on disposals of capital assets are not reported as expenditures in the governmental funds | <u>(11,151)</u> |
| Change in Net Assets of Governmental Activities | <u>\$ (315,790)</u> |

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

**ALCORN SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2005**

| | <u>Private-Purpose Trust Funds</u> | <u>Agency Funds</u> |
|--|--|---------------------|
| ASSETS | | |
| Cash and Cash Equivalents | \$ 10,774 | \$ 1,139,494 |
| TOTAL ASSETS | <u>\$ 10,774</u> | <u>\$ 1,139,494</u> |
| LIABILITIES | | |
| Accounts Payable and Accrued Liabilities | \$ - | \$ 1,006,930 |
| Due to Club Funds | <u>-</u> | <u>132,564</u> |
| TOTAL LIABILITIES | <u>\$ -</u> | <u>\$ 1,139,494</u> |
| NET ASSETS | | |
| Reserved for Endowments | <u>\$ 10,774</u> | |
| TOTAL NET ASSETS | <u>\$ 10,774</u> | |

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

Exhibit F

**ALCORN SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005**

| | <u>Private-Purpose Trust Funds</u> |
|---------------------------------------|--|
| ADDITIONS | |
| Interest on Investments | \$ <u>230</u> |
| TOTAL ADDITIONS | \$ <u>230</u> |
| DEDUCTIONS | |
| Scholarships Awarded | \$ <u>600</u> |
| TOTAL DEDUCTIONS | \$ <u>600</u> |
| CHANGE IN NET ASSETS | (370) |
| NET ASSETS - BEGINNING OF YEAR | <u>11,144</u> |
| NET ASSETS - END OF YEAR | <u>\$ 10,774</u> |

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

**ALCORN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(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 of which each member was elected by the citizens of each defined county district.

B. Basis of Presentation

The school district's basic financial statements consists 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 reporting entity 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.

ALCORN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

(1) Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

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 I Fund - This fund is used to account for the federal resources used to provide remedial education.

Title II Fund - This fund is used to account for the federal resources used to hire additional teachers to reduce class sizes, thereby improving teacher quality.

IDEA Part B Fund - This fund is used to account for federal resources used to provide services for handicapped and special-needs children.

21st Century Learning Center Fund - This fund is used to account for federal resources used to operate community learning centers to provide academic enrichment opportunities for children, particularly those who attend high-poverty, low-performing schools.

MAEP Note Retirement Fund - This fund is used to account for state resources pledged to repay debt obligations for limited obligation bonds payable.

All other governmental funds not meeting the criteria established for major funds are presented in the other governmental column of Exhibit C.

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 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.

FIDUCIARY FUNDS

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

ALCORN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

(1) Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

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 operation.

D. Account Classifications

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

E. Encumbrances

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

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

G. Investments

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

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

Investments are reported at fair value.

H. Inventories and Prepaid Items

Donated inventories 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.

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.

**ALCORN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(1) Summary of Significant Accounting Policies (Continued)

I. Capital Assets

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

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

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

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

| | Capitalization Policy | Estimated Useful Life |
|--------------------------------------|--------------------------|--------------------------|
| Land | \$ - | - |
| Buildings | 50,000 | 40 years |
| Building Improvements | 25,000 | 20 years |
| Improvements other than Buildings | 25,000 | 20 years |
| Mobile Equipment | 5,000 | 5-10 years |
| Furniture and Equipment | 5,000 | 3-7 years |
| Leased Property Under Capital Leases | * | * |

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

J. Long-term Liabilities

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

K. Interfund Transactions and Balances

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

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

Transfers are used to (a) move revenues from the fund that statute or budget requires collecting 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.

**ALCORN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(1) Summary of Significant Accounting Policies (Continued)

L. Equity Classifications

Government-Wide Financial Statements:

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

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

Reserved for capital projects - An account that represents a portion of the fund balance in the capital projects funds 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 funds 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.

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.

**ALCORN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(1) Summary of Significant Accounting Policies (Continued)

N. Mississippi Adequate Education Program Revenues

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

O. Compensated Absences

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

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

(2) Changes in Accounting Standards

As required, the school district has implemented Government Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*, for the current fiscal year. This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Appropriate note disclosures have been incorporated to comply with the requirements of this standard.

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

Cash and Cash Equivalents

The collateral for public entities' 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.

The carrying amount of the school district's deposits with financial institutions in the governmental funds and fiduciary funds was \$2,432,946 and \$1,150,268, respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and cash equivalents \$2,432,946. The bank balance was \$6,127,985.

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 formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above the FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2005, none of the district's bank balance of \$6,127,985 was exposed to custodial credit risk.

**ALCORN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

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

Investments

As of June 30, 2005, the district had the following investments. All investments are in an internal investment pool.

| <u>Investment Type</u> | <u>Maturities (in Years)</u> | <u>Fair Market Value</u> | <u>Rating</u> |
|------------------------------------|----------------------------------|------------------------------|---------------|
| Hancock Bank Treasury Money Market | Less than 1 | \$ 172,166 | AAA |
| Total Investments | | <u>\$ 172,166</u> | |

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

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

Custodial Credit Risk - Investments - Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk. As of June 30, 2005, none of the district's investment balance was exposed to custodial credit risk.

Concentration of Credit Risk - Disclosures of investments by amount and issuer for any issuer that represents five percent (5.00%) or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2005, the district had no investments requiring such disclosure.

(4) Interfund Transactions and Balances

The following is a summary of interfund transactions and balances:

| A. Due From/Due To Other Funds | <u>Due From</u> | <u>Due To</u> |
|---------------------------------------|-------------------|-------------------|
| Governmental Funds: | | |
| General Fund | \$ 338,027 | \$ - |
| Title I Fund | - | 72,748 |
| Title II Fund | - | 36,409 |
| IDEA Part B Fund | - | 94,108 |
| 21st Century Learning Fund | - | 115,710 |
| Other Governmental Funds | - | 19,052 |
| Total All Funds | <u>\$ 338,027</u> | <u>\$ 338,027</u> |

All due from/due to balances were to eliminate deficit cash balances.

**ALCORN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(4) Interfund Transactions and Balances (Continued)

B. Transfers In/Transfers Out

| | <u>Transfers In</u> | <u>Transfers Out</u> |
|----------------------------|---------------------|----------------------|
| Governmental Funds: | | |
| General Fund | \$ 3,150 | \$ 6,000 |
| 21st Century Learning Fund | - | 3,150 |
| Other Governmental Funds | <u>6,000</u> | <u>-</u> |
| Total All Funds | <u>\$ 9,150</u> | <u>\$ 9,150</u> |

The transfer from the General Fund to Other Governmental Funds in the amount of \$6,000 was to support the Unemployment Compensation Fund. The transfer from the 21st Century Learning Fund to the General Fund was for indirect costs.

(5) Capital Assets

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

| | <u>Balance 7/1/04</u> | <u>Additions</u> | <u>Retirements</u> | <u>Completed Construction</u> | <u>Balance 6/30/05</u> |
|--|---------------------------|---------------------|--------------------|-----------------------------------|----------------------------|
| <u>Non-Depreciable Capital Assets</u> | | | | | |
| Land | \$ 239,502 | \$ - | \$ - | \$ - | \$ 239,502 |
| Construction in Progress | <u>32,918</u> | <u>-</u> | <u>-</u> | <u>(32,918)</u> | <u>-</u> |
| Total Non-Depreciable Capital Assets | <u>272,420</u> | <u>-</u> | <u>-</u> | <u>(32,918)</u> | <u>239,502</u> |
| <u>Depreciable Capital Assets:</u> | | | | | |
| Buildings | 25,420,945 | - | - | - | 25,420,945 |
| Building Improvements | 1,674,768 | 159,621 | - | 32,918 | 1,867,307 |
| Mobile Equipment | 2,377,960 | 5,275 | 60,000 | - | 2,323,235 |
| Furniture and Equipment | 591,126 | 42,291 | 6,000 | - | 627,417 |
| Leased Property Under Capital Leases | <u>691,975</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>691,975</u> |
| Total Depreciable Capital Assets | <u>30,756,774</u> | <u>207,187</u> | <u>66,000</u> | <u>32,918</u> | <u>30,930,879</u> |
| <u>Less Accumulated Depreciation for:</u> | | | | | |
| Buildings | 12,165,796 | 382,948 | - | - | 12,548,744 |
| Building Improvements | 204,939 | 74,692 | - | - | 279,631 |
| Mobile Equipment | 1,638,430 | 116,169 | 54,000 | - | 1,700,599 |
| Furniture and Equipment | 388,638 | 58,500 | 849 | - | 446,289 |
| Leased Property Under Capital Leases | <u>145,706</u> | <u>62,277</u> | <u>-</u> | <u>-</u> | <u>207,983</u> |
| Total Accumulated Depreciation | <u>14,543,509</u> | <u>694,586</u> | <u>54,849</u> | <u>-</u> | <u>15,183,246</u> |
| Total Depreciable Capital Assets, Net | <u>16,213,265</u> | <u>(487,399)</u> | <u>11,151</u> | <u>32,918</u> | <u>15,747,633</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 16,485,685</u> | <u>\$ (487,399)</u> | <u>\$ 11,151</u> | <u>\$ -</u> | <u>\$ 15,987,135</u> |

**ALCORN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(5) Capital Assets (Continued)

Depreciation expense was charged to the following governmental functions:

| | Amount |
|--------------------------------|----------------|
| Instruction | \$ 462,817 |
| Support Services | 197,081 |
| Non-Instructional | 34,688 |
| Total Depreciation Expense | \$ 694,586 |

(6) Long-Term Liabilities

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

| | Balance 7/1/04 | Additions | Reductions | Balance 6/30/05 | Amounts Due Within One Year |
|---|-------------------|-----------|------------|--------------------|-----------------------------------|
| A. Limited Obligation Bonds Payable | \$ 6,025,000 | \$ - | \$ 290,000 | \$ 5,735,000 | \$ 310,000 |
| B. Three Mill Notes Payable | 131,000 | - | 100,000 | 31,000 | 31,000 |
| C. Transportation Equipment Loans Payable | 470,000 | - | 125,000 | 345,000 | 115,000 |
| D. Obligations Under Capital Lease | 605,717 | - | 109,315 | 496,402 | 81,812 |
| E. Compensated Absences Payable | 234,639 | 3,240 | - | 237,879 | - |
| Total | \$ 7,466,356 | \$ 3,240 | \$ 624,315 | \$ 6,845,281 | \$ 537,812 |

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, Series 1998 | Varies | 5/1/1998 | 2/1/2018 | \$ 6,895,000 | \$ 5,735,000 |
| Total | | | | \$ 6,895,000 | \$ 5,735,000 |

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 37-151-7, Miss. Code Ann. (1972). The State Aid Capital Improvement Bonds are not included in the computation of the debt limit percentage.

**ALCORN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(6) Long-Term Liabilities (Continued)

A. Limited Obligation Bonds Payable (continued).

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

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|---------------------|---------------------|---------------------|
| 2006 | \$ 310,000 | \$ 258,916 | \$ 568,916 |
| 2007 | 325,000 | 243,405 | 568,405 |
| 2008 | 340,000 | 229,106 | 569,106 |
| 2009 | 345,000 | 214,249 | 559,249 |
| 2010 | 360,000 | 198,783 | 558,783 |
| 2011 - 2015 | 2,085,000 | 723,086 | 2,808,086 |
| 2016 - 2018 | 1,970,000 | 175,156 | 2,145,156 |
| Total | <u>\$ 5,735,000</u> | <u>\$ 2,042,701</u> | <u>\$ 7,777,701</u> |

This debt will be retired from the MAEP Retirement Fund.

B. Three Mill Notes Payable.

Debt currently outstanding is as follows:

| Description | Interest Rate | Issue Date | Maturity Date | Amount Issued | Amount Outstanding |
|-------------------------------|------------------|---------------|------------------|-------------------|-----------------------|
| Negotiable Notes, Series 1996 | Varies | 7/9/1996 | 6/1/2006 | \$ 250,000 | \$ 31,000 |
| Total | | | | <u>\$ 250,000</u> | <u>\$ 31,000</u> |

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

| June 30, | Principal | Interest | Total |
|----------|------------------|-----------------|------------------|
| 2006 | \$ 31,000 | \$ 1,736 | \$ 32,736 |
| Total | <u>\$ 31,000</u> | <u>\$ 1,736</u> | <u>\$ 32,736</u> |

This debt will be retired from the Three Mill Note Retirement Fund.

C. Transportation Equipment Loans Payable.

Debt currently outstanding is as follows:

| Description | Interest Rate | Issue Date | Maturity Date | Amount Issued | Amount Outstanding |
|-------------------------------|------------------|---------------|------------------|-------------------|-----------------------|
| Negotiable Notes, Series 1998 | 4.75% | 2/1/1998 | 2/1/2008 | \$ 100,000 | \$ 345,000 |
| Total | | | | <u>\$ 100,000</u> | <u>\$ 345,000</u> |

**ALCORN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(6) Long-Term Liabilities (Continued)

C. Transportation Equipment Loans Payable (continued).

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

| June 30, | Principal | Interest | Total |
|----------|-------------------|------------------|-------------------|
| 2006 | \$ 115,000 | \$ 16,388 | \$ 131,388 |
| 2007 | 115,000 | 10,925 | 125,925 |
| 2008 | 115,000 | 5,462 | 120,462 |
| Total | <u>\$ 345,000</u> | <u>\$ 32,775</u> | <u>\$ 377,775</u> |

This debt will be retired from the Three Mill Note Retirement Fund.

D. Obligation Under Capital Leases.

The school district has entered into two lease agreement that qualifies as capital leases for accounting purposes. Leased property under this lease is composed of .

1. Five school buses
2. Nine school buses and HVAC equipment

The option available to the lessee for these leases is as follows:

Title shall be vested in the school district as long as the district is not in default under the agreement.

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

| Year Ending June 30, | Principal | Interest | Total |
|-------------------------|-------------------|------------------|-------------------|
| 2006 | \$ 81,812 | \$ 19,212 | \$ 101,024 |
| 2007 | 52,255 | 16,447 | 68,702 |
| 2008 | 54,417 | 14,285 | 68,702 |
| 2009 | 56,669 | 12,033 | 68,702 |
| 2010 | 59,014 | 9,688 | 68,702 |
| 2011 - 2013 | 192,235 | 14,003 | 206,238 |
| Total | <u>\$ 496,402</u> | <u>\$ 85,668</u> | <u>\$ 582,070</u> |

E. Compensated Absences Payable.

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

**ALCORN SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

(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 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 information may be obtained by writing to Public Employee Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling (601) 359-3589 or 1-800 444-PERS.

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary and the school district is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The Alcorn School District's contributions to PERS for the years ending June 30, 2005, 2004, and 2003, were \$1,607,841, \$1,390,607, and \$1,369,155, respectively, which equaled the required contributions for each year.

(8) 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 noted below, the district carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Participation in Public Entity Risk Pool.

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 127 school districts and covers risks of loss arising from injuries to the school district's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to the fund held in the trust by BancorpSouth in Jackson. The funds in the trust account are used to pay any claim up to \$400,000. For a claim exceeding \$400,000, 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.

(9) Prior Period Adjustments/Exhibits

The Statement of Net Activities shows a prior period adjustment to correct an error in recording prior year accrued interest payable in the amount of \$54,919.

(10) Subsequent Events/Contingent Liability

On August 29, 2005, pursuant to authorization as recorded in the minutes of the school board, the school district entered into a loan guaranty on behalf of the Alcorn Central High School Booster Club. The purpose of the loan was to construct a building to be used as a weight room for athletic purposes. The loan was for \$50,822, and the interest rate is equal to the bank's prime rate, but not less than 6.00%. It is payable in seven annual installments of \$8,083 each, and a final payment equal to the remaining principal balance plus all accrued interest remaining due at maturity.

**ALCORN SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005**

| | Budgeted Amounts | | Actual (GAAP Basis) | Variances | |
|--|---------------------|---------------------|------------------------|--------------------|--------------------|
| | Original | Final | | Original to Final | Final to Actual |
| Revenue | | | | | |
| Local Sources | \$ 5,769,328 | \$ 5,521,021 | \$ 5,521,021 | \$ (248,307) | \$ - |
| State Sources | 15,591,671 | 15,876,720 | 15,876,720 | 285,049 | - |
| Federal Sources | 180,000 | 211,145 | 211,145 | 31,145 | - |
| Total Revenues | <u>21,540,999</u> | <u>21,608,886</u> | <u>21,608,886</u> | <u>67,887</u> | <u>-</u> |
| Expenditures | | | | | |
| Instruction | 14,782,697 | 15,000,674 | 15,000,674 | (217,977) | - |
| Support Services | 6,683,292 | 6,626,420 | 6,650,369 | 56,872 | (23,949) |
| Non-Instructional Services | 8,500 | 9,582 | 12,732 | (1,082) | (3,150) |
| Facilities Acquisition and Construction | 44,000 | 159,621 | 159,621 | (115,621) | - |
| Debt Service: | | | | | |
| Principal | - | 1,141 | 1,141 | (1,141) | - |
| Interest | - | - | - | - | - |
| Total Expenditures | <u>21,518,489</u> | <u>21,797,438</u> | <u>21,824,537</u> | <u>(278,949)</u> | <u>(27,099)</u> |
| Excess (Deficiency) of Revenues over Expenditures | <u>22,510</u> | <u>(188,552)</u> | <u>(215,651)</u> | <u>(211,062)</u> | <u>(27,099)</u> |
| Other Financing Sources (Uses) | | | | | |
| Insurance Recoveries | 800 | 2,117 | 2,117 | 1,317 | - |
| Sale of Transportation Equipment | 7,000 | - | - | (7,000) | - |
| Operating Transfers In | 2,783,241 | 2,273,797 | 3,150 | (509,444) | (2,270,647) |
| Operating Transfers Out | (2,934,264) | (2,273,797) | (6,000) | 660,467 | 2,267,797 |
| Total Other Financing Sources (Uses) | <u>(143,223)</u> | <u>2,117</u> | <u>(733)</u> | <u>145,340</u> | <u>(2,850)</u> |
| Net Change in Fund Balance | <u>(120,713)</u> | <u>(186,435)</u> | <u>(216,384)</u> | <u>(65,722)</u> | <u>(29,949)</u> |
| Fund Balances | | | | | |
| July 1, 2004 | <u>2,292,092</u> | <u>2,292,092</u> | <u>2,292,092</u> | <u>-</u> | <u>-</u> |
| June 30, 2005 | <u>\$ 2,171,379</u> | <u>\$ 2,105,657</u> | <u>\$ 2,075,708</u> | <u>\$ (65,722)</u> | <u>\$ (29,949)</u> |

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

**ALCORN SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE FOR THE TITLE I FUND
 FOR THE YEAR ENDED JUNE 30, 2005**

| | Budgeted Amounts | | Actual (GAAP Basis) | Variances | |
|--|------------------|----------------|------------------------|-------------------|-----------------|
| | Original | Final | | Original to Final | Final to Actual |
| Revenue | | | | | |
| Federal Sources | \$ 597,907 | \$ 556,203 | \$ 556,203 | \$ (41,704) | \$ - |
| Total Revenues | <u>597,907</u> | <u>556,203</u> | <u>556,203</u> | <u>(41,704)</u> | <u>-</u> |
| Expenditures | | | | | |
| Instruction | 496,917 | 444,679 | 444,679 | 52,238 | - |
| Support Services | 95,190 | 107,360 | 107,360 | (12,170) | - |
| Non-Instructional | <u>5,800</u> | <u>4,164</u> | <u>4,164</u> | <u>1,636</u> | <u>-</u> |
| Total Expenditures | <u>597,907</u> | <u>556,203</u> | <u>556,203</u> | <u>41,704</u> | <u>-</u> |
| Excess (Deficiency) of Revenues over Expenditures | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net Change in Fund Balance | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund Balances | | | | | |
| July 1, 2004 | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| June 30, 2005 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

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

**ALCORN SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE FOR THE TITLE II FUND
 FOR THE YEAR ENDED JUNE 30, 2005**

| | Budgeted Amounts | | Actual (GAAP Basis) | Variances | |
|--|------------------|----------------|------------------------|-------------------|-----------------|
| | Original | Final | | Original to Final | Final to Actual |
| Revenue | | | | | |
| Federal Sources | \$ 194,608 | \$ 191,797 | \$ 191,797 | \$ (2,811) | \$ - |
| Total Revenues | <u>194,608</u> | <u>191,797</u> | <u>191,797</u> | <u>(2,811)</u> | <u>-</u> |
| Expenditures | | | | | |
| Instruction | 154,095 | 149,141 | 149,141 | 4,954 | - |
| Support Services | <u>40,513</u> | <u>42,656</u> | <u>42,656</u> | <u>(2,143)</u> | <u>-</u> |
| Total Expenditures | <u>194,608</u> | <u>191,797</u> | <u>191,797</u> | <u>2,811</u> | <u>-</u> |
| Excess (Deficiency) of Revenues over Expenditures | - | - | - | - | - |
| Other Financing Sources (Uses) | - | - | - | - | - |
| Net Change in Fund Balance | - | - | - | - | - |
| Fund Balances | | | | | |
| July 1, 2004 | - | - | - | - | - |
| June 30, 2005 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

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

**ALCORN SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE FOR THE IDEA PART B FUND
 FOR THE YEAR ENDED JUNE 30, 2005**

| | Budgeted Amounts | | Actual (GAAP Basis) | Variances | |
|--|------------------|----------------|------------------------|-------------------|-----------------|
| | Original | Final | | Original to Final | Final to Actual |
| Revenue | | | | | |
| Federal Sources | \$ 817,172 | \$ 742,762 | \$ 742,762 | \$ (74,410) | \$ - |
| Total Revenues | <u>817,172</u> | <u>742,762</u> | <u>742,762</u> | <u>(74,410)</u> | <u>-</u> |
| Expenditures | | | | | |
| Instruction | 522,177 | 463,695 | 463,695 | 58,482 | - |
| Support Services | 294,995 | 281,847 | 281,847 | 13,148 | - |
| Total Expenditures | <u>817,172</u> | <u>745,542</u> | <u>745,542</u> | <u>71,630</u> | <u>-</u> |
| Excess (Deficiency) of Revenues over Expenditures | <u>-</u> | <u>(2,780)</u> | <u>(2,780)</u> | <u>(2,780)</u> | <u>-</u> |
| Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Net Change in Fund Balance | <u>-</u> | <u>(2,780)</u> | <u>(2,780)</u> | <u>(2,780)</u> | <u>-</u> |
| Fund Balances | | | | | |
| July 1, 2004 | 2,780 | 2,780 | 2,780 | - | - |
| June 30, 2005 | <u>\$ 2,780</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (2,780)</u> | <u>\$ -</u> |

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

ALCORN SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE FOR THE 21st CENTURY LEARNING FUND
 FOR THE YEAR ENDED JUNE 30, 2005

| | Budgeted Amounts | | Actual (GAAP Basis) | Variances | |
|--|------------------|----------------|------------------------|-------------------|-----------------|
| | Original | Final | | Original to Final | Final to Actual |
| Revenue | | | | | |
| Federal Sources | \$ 448,354 | \$ 441,766 | \$ 441,766 | \$ (6,588) | \$ - |
| Total Revenues | <u>448,354</u> | <u>441,766</u> | <u>441,766</u> | <u>(6,588)</u> | <u>-</u> |
| Expenditures | | | | | |
| Instruction | 127,209 | 141,506 | 141,506 | (14,297) | - |
| Support Services | 62,703 | 43,982 | 43,982 | 18,721 | - |
| Non-Instructional | <u>253,038</u> | <u>253,128</u> | <u>253,128</u> | <u>(90)</u> | <u>-</u> |
| Total Expenditures | <u>442,950</u> | <u>438,616</u> | <u>438,616</u> | <u>4,334</u> | <u>-</u> |
| Excess (Deficiency) of Revenues over Expenditures | <u>5,404</u> | <u>3,150</u> | <u>3,150</u> | <u>(2,254)</u> | <u>-</u> |
| Other Financing Sources (Uses) | | | | | |
| Operating Transfers Out | <u>(5,404)</u> | <u>(3,150)</u> | <u>(3,150)</u> | <u>2,254</u> | <u>-</u> |
| Total Other Financing Sources (Uses) | <u>(5,404)</u> | <u>(3,150)</u> | <u>(3,150)</u> | <u>2,254</u> | <u>-</u> |
| Net Change in Fund Balance | - | - | - | - | - |
| Fund Balances | | | | | |
| July 1, 2004 | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| June 30, 2005 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

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

**ALCORN SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2005**

Budgetary Comparison Schedule

(1) Basis of Presentation

The Budgetary Comparison Schedule presents 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 the date established by the Mississippi Department of Education. A budgetary comparison is presented for the General Fund and each major Special Revenue Fund, consistent with accounting principles generally accepted in the United States of America.

(3) Individual Fund Disclosures

The General Fund has an excess of expenditures over budget in the amount of \$27,099. This excess of expenditures over budget is not in violation of state law since the excess resulted from an auditors' adjustment.

**ALCORN SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005**

| Federal Grantor/ Pass-Through Grantor/ Program Title | Catalog of Federal Domestic Assistance Number | Federal Expenditures |
|---|---|-------------------------|
| U.S. Department of Agriculture | | |
| Passed-Through Mississippi Department of Education: | | |
| Non-Cash Assistance: | | |
| Food Donation | 10.550 | \$ 77,060 |
| Child Nutrition Cluster: | | |
| School Breakfast Program | 10.553 | 290,931 |
| National School Lunch Program | 10.555 | 701,522 |
| Total Child Nutrition Cluster | | 992,453 |
| Total Passed-Through Mississippi Department of Education | | 1,069,513 |
| Passed-Through Mississippi Forestry Commission | | |
| Cooperative Forestry Assistance | 10.664 | 10,406 |
| Total Passed-Through Mississippi Forestry Commission | | 10,406 |
| Total U.S. Department of Agriculture | | 1,079,919 |
| Federal Communications Commission | | |
| Administered through the Universal Service Administrative Company | | |
| The Schools and Libraries Program of the Universal Service Fund | 32.XXX | 86,168 |
| Total Federal Communications Commission | | 86,168 |
| U.S. Department of Education | | |
| Passed-Through Mississippi Department of Education: | | |
| Special Education Cluster: | | |
| Special Education - Grants to States | 84.027 | 745,542 |
| Special Education - Preschool Grants | 84.173 | 43,466 |
| Total Special Education Cluster | | 789,008 |
| Title I Grants to Local Educational Agencies | 84.010 | 556,203 |
| Vocational Education - Basic Grants to States | 84.048 | 48,287 |
| Safe and Drug-Free Schools and Communities - State Grants | 84.186 | 15,192 |
| Education for Homeless Children and Youth | 84.196 | 21,808 |
| Fund for the Improvement of Education | 84.215 | 744 |
| Twenty-First Century Community Learning Centers | 84.287 | 441,767 |
| State Grants for Innovative Programs | 84.298 | 23,382 |
| Education Technology State Grants | 84.318 | 15,209 |
| Comprehensive School Reform Demonstration | 84.332 | 114,757 |
| Improving Teacher Quality - State Grants | 84.367 | 191,798 |
| Total | | 2,218,155 |
| Total Passed-Through Mississippi Department of Education | | 2,218,155 |
| Total U.S. Department of Education | | 2,218,155 |
| Total for All Federal Awards | | \$ 3,384,242 |

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.

**ALCORN SCHOOL DISTRICT
 SCHEDULE OF INSTRUCTIONAL, ADMINISTRATIVE AND OTHER EXPENDITURES -
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2005**

| <u>Expenditures</u> | <u>Total</u> | <u>Instructional</u> | <u>Administrative</u> | <u>Other</u> |
|------------------------------|----------------------|----------------------|-----------------------|---------------------|
| Salaries and fringe benefits | \$ 21,536,568 | \$ 15,532,041 | \$ 2,040,133 | \$ 3,964,394 |
| Other | <u>6,137,400</u> | <u>1,850,482</u> | <u>181,475</u> | <u>4,105,443</u> |
| Total | <u>\$ 27,673,968</u> | <u>\$ 17,382,523</u> | <u>\$ 2,221,608</u> | <u>\$ 8,069,837</u> |

Total number of students 3,539

Cost per student \$ 7,820 \$ 4,912 \$ 628 \$ 2,280

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

Instruction - 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 functional codes.

Administrative - includes expenditures for the following functions: Support Services - General Administrative (2300s); Support Services - School Administration (2400s); Support Services - Business (2500s).

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



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**INDEPENDENT AUDITORS' 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
Alcorn School District

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Alcorn School District as of and for the year ended June 30, 2005, which collectively comprise Alcorn School District's basic financial statements and have issued our report thereon dated September 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 opinion on the financial statements and not to provide assurance 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 Alcorn School District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of Findings and Questioned Costs as item 2005-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. However, we consider item 2005-1 to be a material weakness.

Compliance and Other Matters

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

This report is intended solely for the information and use of the school board, 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.



September 22, 2006
Corinth, Mississippi



Certified Public Accountants

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**INDEPENDENT AUDITORS' 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
Alcorn School District

Compliance

We have audited the compliance of the Alcorn 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, 2005. Alcorn County School District's major federal programs are identified in the summary of auditors' results section of the accompanying 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 Alcorn 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.

As described in items 2005-2 and 2005-3 in the accompanying Schedule of Findings and Questioned Costs, Alcorn School District did not comply with requirements regarding activities allowed or unallowed and allowable costs/cost principles that are applicable to its Child Nutrition Cluster. Compliance with such requirements is necessary, in our opinion, for Alcorn School District to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Alcorn 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, 2005.

Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect Alcorn School District's ability to administer a major federal program in accordance with the applicable requirements of the laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2005-2 and 2005-3.

A material weakness is a 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 material weaknesses. However, of the reportable conditions described above, we consider items 2005-2 and 2005-3 to be material weaknesses.

This report is intended solely for the information and use of the school board, 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.

Burner VanAntony & Company, P.A.

September 22, 2006
Corinth, Mississippi



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Superintendent and School Board
Alcorn School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Alcorn School District as of and for the year ended June 30, 2005, which collectively comprise Alcorn School District's basic financial statements and have issued our report thereon dated September 22, 2006. We conducted our audit in accordance with auditing standards, generally accepted in the United States of America and 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 \$235,386 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, 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.

September 22, 2006
Corinth, Mississippi

**ALCORN SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

Section 1: Summary of Auditors' Results

Financial Statements:

- | | | |
|----|--|-------------|
| 1. | Type of auditors' 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 conditions identified that are not considered to be material weaknesses? | No |

Federal Awards:

- | | | |
|-----|--|-----------|
| 4. | Type of auditors' report issued on compliance for major federal programs: | Qualified |
| 5. | Internal control over major programs: | |
| | a. Material weakness(es) identified? | Yes |
| | b. Reportable conditions identified that are not considered to be material weaknesses? | No |
| 6. | Any audit findings reported as required by Section __.510 (a) of OMB Circular A-133? | No |
| 7. | Federal programs identified as major programs: | |
| | a. Child Nutrition Cluster CFDA #10.553 CFDA #10.555 | |
| | b. Special Education Cluster CFDA #84.027 CFDA #84.173 | |
| | c. Twenty-First Century Community Learning Centers CFDA #84.287 | |
| 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 |

**ALCORN SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

Section 2: Financial Statement Findings

Reportable Conditions that are Material Weaknesses

Finding 2005-1

Necessary controls are not in place to safeguard activity funds. We noted the following:

1. Concession money is not counted and receipted to the person turning in the collected funds.
2. Receipts are not given to teachers when they turn in money to the school secretaries for fund raisers and other school activities. Teachers did not keep records of money collected from students.
3. The same person was responsible for preparing deposits, taking them to the bank, and entering the deposit into the computer system.
4. Profit margins are not being reviewed to see if all money is being turned in on concessions.
5. No controls were in place to ensure the proper amount was collected and deposited for gate receipts.
6. No controls were in place to ensure that activity fund vendor invoices were paid timely.

Recommendation

We recommend the school district implement internal controls such as, but not limited to, the following:

1. Staff members operating concessions should count the cash given to them at the beginning of break and the total money turned in to the school secretary at the end of break in the presence of the school secretary and receive a receipt for the money turned in.
2. Teachers conducting fund raisers should keep detailed records of all money received from students and issue each student a receipt. When the money is turned in to the school secretary, it should be counted in the presence of the school secretary and the teacher should receive a receipt for that amount, which agrees with his or her records.
3. The same person should not be responsible for preparing and making the deposits and recording the deposits into the bookkeeping system. Proper segregation of duties should be implemented to ensure a system of checks and balances for these functions.
4. Gross profit margins should be monitored for unusual fluctuations, and those fluctuations investigated in a timely manner.
5. A system should be established to monitor invoice due dates to ensure timely payment.
6. A gate receipt form such as the one found in the *Financial Accounting Manual for Mississippi Public School Districts* should be utilized properly to account for gate receipt activity and any discrepancies investigated.
7. Review the *Financial Accounting Manual for Mississippi Public School Districts* to become familiar with the controls and procedures. Also, staff training may need to be conducted to better prepare staff for the performance of their duties.

**ALCORN SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

Section 3: Federal Award Findings and Questioned Costs

Finding 2005-02

Program: Child Nutrition Cluster; CFDA #s 10.553 and 10.555

Compliance Requirements: Activities Allowed or Unallowed and Reporting

Condition: No procedures are in place to provide for the proper counting of reimbursable meals. We noted that duplicate numbers, invalid numbers and inactive numbers were used in the meal counts.

Effect: Claims for reimbursement have been overstated. As a result, the school district owes the amount of excess back to the federal program.

Recommendation: A system needs to be implemented that ensures duplicate, invalid and inactive numbers can not be used when counting meals for reimbursement.

Questioned Cost: \$18,665.72

Finding 2005-03

Program: Child Nutrition Cluster; CFDA #s 10.553 and 10.555

Compliance Requirements: Allowable Costs/Cost Principles

Condition: At two schools, the school secretaries were working in the cafeterias as cashiers and as the school secretaries. However, they were paid exclusively from Food Service funds.

Effect: Because the salaries were not pro-rated, that portion of the salaries and fringe benefits attributable to school secretarial work is unallowable as a Food Service expense. As a result the school district's General Fund owes the portion of the salaries and fringe benefits for school secretarial work back to the Food Service operation.

Recommendation: A time and effort system needs to be in place for anyone performing duties in the Food Service area and other areas of operations, and the Food Service funds should only be used to pay the portion attributable to Food Service operations.

Questioned Cost: \$23,949.14

Mike Wamsley
Superintendent

Board of Education

Linda H. Brooks, Ph.D.

Wilson E. Busby

Bobby Caldwell

Jan L. Haley

Gary K. Wren

ALCORN SCHOOL DISTRICT

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As required by Section __.315(c) of OMB A-133, the Alcorn School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2005:

Finding

Corrective Action Plan Details

2005-2

2005-3

a. Name of Contact Person Responsible for Corrective Action:

Cathy C. Harrison, Business Manager: (662) 286-5591

b. Corrective Action Planned:

Immediately upon notification of this finding by the auditors, corrective action was put in place to rectify this situation. The district purchased computers and point of sale software that would count the meals by each student using their individual identification number. This point of sale prevents a student from being counted numerous times and the students cannot purchase food except with their own identification number. We were contacted by the Office of Healthy Schools requesting a payment to them for over claimed meals in the amount of \$18,665.72. We sent them a check for that amount on January 18, 2006. As for the food service absorbing the full cost of two secretaries, the district recorded journal entries pro-rating the two secretaries salaries according to the percentages they actually work in the cafeteria which was 40% in the cafeteria and 60% in the school office. We transferred \$16,237.49 on May 16, 2005 from the District Maintenance bank account to the Cafeteria bank account to refund the 100% of salaries that had been charged to the cafeteria fund. Due to an error in the pro-rated calculations for repaying salaries and fixed charges, the district owed \$7,711.65 more to the Cafeteria bank account and transferred that amount from District Maintenance on October 3, 2006.

c. Completion Date:

October 3, 2006

Sincerely,



Mike Wamsley

Superintendent of Education