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BENTON COUNTY SCHOOL DISTRICT
AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

**BENTON COUNTY SCHOOL DISTRICT
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JUNE 30, 2005**

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

Superintendent and School Board
Benton County School District

We have audited the accompanying financial statements of the governmental activities, each major fund and aggregate remaining fund information of the Benton County School District as of and for the year ended June 30, 2005, which collectively comprise the Benton County School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Benton County School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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 Benton County 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 a report dated December 16, 2005, on our consideration of the Benton County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing 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 read in conjunction with this report in considering 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 28 and 29 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of 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 an opinion on the financial statements that collectively comprise the Benton County School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. In addition the Schedule of Instructional, Administrative and Other Expenditures – Governmental Funds is presented for purposes of additional analysis. 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 financial statements taken as a whole.

Brauer, Van Diney + Co P.A.

December 16, 2005
Booneville, Mississippi



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

The discussion and analysis of Benton County 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 increased \$396,744, which represents 7.8% increase from fiscal year 2004.

General revenues account for \$7,147,127 in revenue, or 76.2% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$2,229,002 or 23.8% of total revenues.

The District had \$8,979,405 in expenses; only \$2,229,002 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$7,147,126 were adequate to provide for these programs.

Among major funds, the General Fund had \$7,274,890 in revenues and \$6,375,642 in expenditures. The General Fund's fund balance increased \$55,057 from the prior year.

Capital assets, net of accumulated depreciation, decreased by \$192,884.

Long-term debt decreased by \$57,902.

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.

**BENTON COUNTY 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 additional major fund.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. 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 \$5,473,969 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.

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

The following 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	Total Percentage Change 2005-2004
Current assets	\$ 1,629,767	\$ 1,483,486	9.9%
Capital assets, net	5,565,298	5,758,182	-3.3%
Total assets	7,195,065	7,241,668	-0.6%
Current liabilities	149,030	442,541	-66.3%
Long-term debt outstanding	1,572,066	1,721,902	-8.7%
Total liabilities	1,721,096	2,164,443	-20.5%
Net assets:			
Invested in capital assets, net of related debt	4,048,145	5,336,859	-24.1%
Restricted	1,262,835	336,997	274.7%
Unrestricted	162,989	(596,631)	127.3%
Total net assets	\$ 5,473,969	\$ 5,077,225	7.8%

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2005, were \$9,376,148. The total cost of all programs and services was \$8,979,405. 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	Total Percentage Change 2005-2004
Revenues:			
Program revenues	\$ 2,229,022	\$ 2,200,176	1.3%
General revenues	7,147,127	6,434,673	11.1%
Total revenues	9,376,149	8,634,849	8.6%
Expenses:			
Instruction	5,208,129	4,682,032	11.2%
Support services	3,145,013	3,039,092	3.5%
Non-instructional	580,585	634,107	-8.4%
Interest on long-term liabilities	45,678	48,437	-5.7%
Total expenses	8,979,405	8,403,668	6.9%
Increase in net assets	\$ 396,744	\$ 231,181	71.6%

**BENTON COUNTY 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 Percentage Change	Net (Expense) Revenue		Total Percentage
	2005	2004	2005-2004	2005	2004	2005-2004
Instruction	\$ 5,208,129	4,682,032	11.2%	\$ (3,719,981)	\$ (3,554,577)	4.65%
Support services	3,145,013	3,039,092	3.5%	(3,048,652)	(2,622,958)	16.23%
Non-instructional	580,585	634,107	-8.4%	63,928	22,480	184.38%
Interest on long-term liabilities	45,678	48,437	-5.7%	(45,678)	(48,437)	-5.70%
Total expenses	\$ 8,979,405	\$ 8,403,668	6.9%	\$ (6,750,383)	\$ (6,203,492)	8.82%

Net cost of governmental activities \$6,750,383 was financed by general revenue, which is made up of primarily property and privilege taxes of \$1,395,724 and state revenue of \$5,598,235.

Investment earnings accounted for \$28,731 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 \$1,580,038, an increase of \$529,464. \$488,656 or 30.9% 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 \$1,091,382 or 69.10% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$55,057. The fund balance of Other Governmental Funds showed a decrease of \$21,052.

BUDGETARY HIGHLIGHTS

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

General Fund

Revenues: Revenues were revised to reflect in lieu of taxes which were not budgeted at the recommendation of the County Board of Supervisors. The Supervisors were not sure they would collect taxes from the entity. The district also received e-rate funds which were not budgeted.

Expenditures: Expenditures were adjusted to reflect employment of an additional teacher and principal's assistant for the growing number of students. Additional expenditures were also necessary for textbooks and supplies.

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

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2005, the District's total capital assets were \$7,680,985, including land, school buildings, buses, other school vehicles, and furniture and equipment. This amount represents an increase of \$15,822 from the previous year. Total accumulated depreciation as of June 30, 2005 was \$2,115,687 and total depreciation expense for the year was \$210,456, resulting in total net assets of \$5,565,298.

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

**Table 4
Capital Assets at June 30, 2005
(Net of depreciation)**

	2005	2004	Total Percentage Change 2005-2004
Land	\$ 76,983	\$ 76,983	0%
Buildings	5,039,653	5,150,539	-2.2%
Mobile Equipment	277,306	318,899	-13.0%
Furniture & Equipment	133,916	169,056	-20.8%
Leased property under Capital Assets	37,440	42,705	-12.3%
Totals	\$ 5,565,298	\$ 5,758,182	-3.3%

Debt Administration. At June 30, 2005, the District had \$1,664,000 in long-term debt outstanding, of which \$91,934 is due within one year.

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

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

	2005	2004	Total Percentage Change 2005-2004
Three-mill notes payable	\$ 786,000	\$ 817,000	-3.8%
Shortfall notes payable	74,618	98,333	-24.1%
Obligations under capital leases	31,153	40,667	-23.4%
Qualified Zone Academy bond payable	700,000	700,000	0.0%
Compensated absences payable	72,229	65,902	9.6%
Totals	\$ 1,664,000	\$ 1,721,902	-3.4%

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

CURRENT ISSUES

The Benton County School District is financially stable. The District is proud of its community support of the public schools. The District has committed itself to financial excellence for many years. The District's system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

The latest enrollment figures indicate that student enrollment in the District will continue to increase. 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 Benton County School District, P.O. Box 247, Ashland, MS 38603.

BENTON COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities
ASSETS	
Cash and Cash Equivalents	\$ 1,140,739
Due from other governments	292,685
Inventories and prepaid items	17,172
Restricted assets	178,259
Due from other funds	912
Capital Assets, net	5,565,298
Total Assets	7,195,065
LIABILITIES	
Deferred Revenue	49,729
Interest Payable on Long Term Liabilities	7,367
Long Term Liabilities (due within one year)	
Capital Related liabilities	42,937
Non-capital liabilities	48,997
Long Term Liabilities (due beyond one year)	
Capital Related liabilities	1,474,216
Non-capital liabilities	97,850
Total Liabilities	1,721,096
NET ASSETS	
Invested in capital assets, net of related debt	4,048,145
Restricted net assets:	
Expendable	
Capital Improvements	819,835
School-based activities	128,462
Debt service	284,796
Unemployment benefits	29,742
Unrestricted	162,989
Total Net Assets	\$ 5,473,969

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

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

Functions/Programs	Expenses	Program Revenues		Capital Grants and Contributions	Total	Net (Expense) Revenue and Changes in Net Assets Primary Governmental Activities
		Charges for Services	Operating Grants and Contributions			
Governmental Activities						
Instruction	\$ 5,208,129	196,251	1,291,897	-	(3,719,981)	
Support services	3,145,013	56,469		39,892	(3,048,652)	
Noninstructional	580,585	15,857	628,656	-	63,928	
Interest on long-term liabilities	45,678	-	-	-	(45,678)	
Total Governmental Activities	8,979,405	268,577	1,920,553	39,892	(6,750,383)	

General Revenues:

Taxes:

General purpose levies	1,271,158
Debt service levies	124,566

Unrestricted grants and contributions

State	5,598,235
Federal	121,962
Unrestricted investment earnings	28,731
Other revenues	2,475
Total General Revenues	7,147,127

Change in Net Assets 396,744

Net Assets-Beginning 5,077,225

Net Assets-Ending \$ 5,473,969

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

BENTON COUNTY SCHOOL DISTRICT
Combined Balance Sheet - Governmental Funds
June 30, 2005

	Major Funds				Total Governmental Funds
	General Fund	AMS Building Fund	QZAB Debt Retirement	Other Governmental Fund	
ASSETS					
Cash and cash equivalents	\$ 858,647	\$ 85,435		\$ 196,657	\$ 1,140,739
Cash with fiscal agent		-	5	-	5
Investments	-	-	178,254	-	178,254
Due from other governments	67,711	-		224,974	292,685
Due from other funds	164,291	734,094		14,469	912,854
Inventories and prepaid items	-	-		17,172	17,172
Total Assets	<u>1,090,649</u>	<u>819,529</u>	<u>178,259</u>	<u>453,272</u>	<u>2,541,709</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Deferred Revenue	-	-		49,729	49,729
Due to other funds	705,463	-		206,479	911,942
Total Liabilities	<u>705,463</u>	<u>-</u>	<u>-</u>	<u>256,208</u>	<u>961,671</u>
Fund Balances					
Reserved for:					
Inventory		-		17,172	17,172
Debt Service			178,259	46,374	224,633
Unemployment Benefits				29,742	29,742
Unreserved					
Undesignated, reported in:					
General Fund	385,186	-		-	385,186
Special Revenue Fund				103,470	103,470
Capital Projects		819,529		306	819,835
Total Fund Balances	<u>385,186</u>	<u>819,529</u>	<u>178,259</u>	<u>197,064</u>	<u>1,580,038</u>
Total Liabilities and Fund Balances	<u>\$ 1,090,649</u>	<u>819,529</u>	<u>178,259</u>	<u>453,272</u>	<u>2,541,709</u>

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

BENTON COUNTY SCHOOL DISTRICT
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets
For the Year Ended June 30, 2005

	Amount
Total Fund Balance-Governmental Funds	\$ 1,580,038
Amounts reported for governmental activities in the statement of activities 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 \$2,115,687.	5,565,298
2. Long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds.	(1,664,000)
3. Accrued interest on debt not due and payable in the current period and therefore, not reported in the funds.	<u>(7,367)</u>
Total Net Assets-Governmental Activities	<u>\$ 5,473,969</u>

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

BENTON COUNTY SCHOOL DISTRICT
Statement of Revenue, Expenditures, and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2005

	Major Funds			Other Governmental Fund	Total Governmental Funds
	General Fund	AMS Building Fund	QZAB Debt Retirement		
Revenues					
Local sources	\$ 1,494,124	\$ 1,988	9,600	\$ 180,235	\$ 1,685,947
State sources	5,658,431	-	-	246,140	5,904,571
Federal sources	122,335	-	-	1,663,715	1,786,050
Total Revenues	7,274,890	1,988	9,600	2,090,090	9,376,568
Expenditures					
Instruction	3,832,264	-	-	1,332,249	5,164,513
Support services	2,532,058	-	-	463,663	2,995,721
Noninstructional services	-	-	-	585,655	585,655
Debt service:					
Principal	9,514	-	-	54,715	64,229
Interest	1,806	-	525	45,608	47,939
Total Expenditures	6,375,642	-	525	2,481,890	8,858,057
Excess (Deficiency) of Revenues Over Expenditures	899,248	1,988	9,075	(391,800)	518,511
Other Financing Sources (Uses)					
Insurance Recoveries	3,133	-	-	-	3,133
Operating transfers in	27,996	434,576	42,000	475,320	979,892
Operating transfers out	(875,320)	-	-	(104,572)	(979,892)
Total Other Financing Sources (Uses)	(844,191)	434,576	42,000	370,748	3,133
Net Change in Fund Balances	55,057	436,564	51,075	(21,052)	521,644
Fund Balances:					
July 1, 2004	330,129	382,965	127,184	210,296	1,050,574
Increase in Reserve for Inventory	-	-	-	7,820	7,820
June 30, 2005	\$ 385,186	\$ 819,529	\$ 178,259	\$ 197,064	\$ 1,580,038

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

BENTON COUNTY SCHOOL DISTRICT
 Reconciliation of the Governmental Funds Statement of Revenues,
 Expenditures and Changes in Fund Balances to the Statement of Activities
 For the Year Ended June 30, 2005

	Amount
Net Change in Fund Balances - Governmental Funds	\$ 521,644
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 \$21,125 and the depreciation expense amounted to \$210,456.	(189,331)
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	64,229
3. Increase in compensated absences is not reported in the governmental funds, but it increases expenses in the Statement of Activities.	(6,327)
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.	2,261
5. Increase in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are decreased in the Statement of Activities	7,820
6. Rounding correction	1
6. Losses on disposals of capital assets are not reported as expenditures in the governmental funds.	(3,553)
Change in Net Assets of Governmental Activities	\$ 396,744

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

BENTON COUNTY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
 JUNE 30, 2005

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 409,212
Due from other funds	<u>184</u>
TOTAL ASSETS	<u><u>409,396</u></u>
LIABILITIES	
Accounts Payable and Accrued Liabilities	387,676
Due to other funds	1,096
Due to Club Funds	<u>20,624</u>
TOTAL LIABILITIES	<u><u>\$ 409,396</u></u>

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

**BENTON COUNTY 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 reporting government 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/expenses. 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 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 flows take place. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Program revenues on the Statement of Activities consist primarily of state appropriations and federal awards.

In the fund financial statements, governmental funds and agency 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 is reported when due.

**BENTON COUNTY 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)

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.

AMS Building Fund – This fund is used to account for the costs associated with the construction of the Ashland Middle School.

QZAB Debt Retirement Fund – This fund is used to accumulate funds to retire the QZAB debt when due.

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than 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

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 the *Governmental Accounting, Auditing and Financial Reporting* as issued in 2005 by the Government Finance Officers Association and 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.

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

(1) Summary of Significant Accounting Policies (Continued)

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.

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 statement.

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 and proprietary funds. 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
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.

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

(1) Summary of Significant Accounting Policies (Continued)

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 interfund loans (due within one year) are reported as "interfund receivables" 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.

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:

- a. 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.
- b. Reserved for debt service—An account that represents a portion of the fund balance which indicates that debt service payments do not represent available spendable resources even though they are a component of net current assets.
- c. 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.

**BENTON COUNTY 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 Governmental 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 now 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 \$1,140,739 and \$409,212, respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and cash equivalents \$1,140,739 and restricted assets & 178,259. The Restricted Assets represent the cash with fiscal agents and investments balance of the QZAB Debt Service Fund and may not be used for purposes that support the district's programs. The bank balance was \$2,206,751.

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 \$2,206,751 was exposed to custodial credit risk.

Cash with Fiscal Agents

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$5.

**BENTON COUNTY 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.

Investment Type	Maturities (in years)	Fair Market Value	Rating
Federal Nat'l Mtg. Assoc.--U.S. Government Obligation	7/15/2005	\$ 178,254	AAA
Total		<u>\$ 178,254</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 a financial institution's failure, 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 to/Due From Other Funds

	Due From	Due To
Governmental Funds		
General Fund	\$ 164,291	\$ 705,463
AMS Building Fund	734,094	-
Other Governmental Funds	14,469	206,479
Total Governmental Funds	<u>912,854</u>	<u>911,942</u>
Fiduciary Funds	184	1,096
Total All Funds	<u>\$ 913,038</u>	<u>\$ 913,038</u>

General fund receivable is advances to other funds until reimbursements are received. \$705,463 is support for other funds not transferred until after year end. Other governmental receivable of \$14,409 is made up of unemployment transfer \$5,463 and reimbursement due to food service.

**BENTON COUNTY 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	\$ 27,996	\$ 875,320
AMC Building Fund	434,576	-
QZAB Debt Retirement Fund	42,000	-
Other Governmental Funds	475,320	104,572
Total All Funds	<u>\$ 979,892</u>	<u>\$ 979,892</u>

Transfers out of \$875,320 are support for other funds. \$104,572 is \$27,996 of indirect cost transferred to District Maintenance, \$42,000 transferred to QZAB Debt Retirement, and \$34,576 transferred from a Capital Projects Fund to AMC Building Fund.

(5) Capital Assets

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

	Balance 7/1/2004	Additions	Retirements	Adjustments	Balance 6/30/2005
<u>Non-depreciable capital assets</u>					
Land	\$ 76,983	\$ -	\$ -		\$ 76,983
Total non-depreciable capital assets	<u>76,983</u>	<u>-</u>	<u>-</u>		<u>76,983</u>
<u>Depreciable capital assets:</u>					
Buildings	6,001,642		-		6,001,642
Mobile equipment	1,053,280		-		1,053,280
Furniture and equipment	474,758	21,125	(5,303)		490,580
Leased property under capital leases	58,500	-	-		58,500
Total depreciable capital assets	<u>7,588,180</u>	<u>21,125</u>	<u>(5,303)</u>	<u>-</u>	<u>7,604,002</u>
<u>Less accumulated depreciation for:</u>					
Buildings	851,103	110,886			961,989
Mobile equipment	734,381	41,593			775,974
Furniture and equipment	305,702	52,712	(1,750)		356,664
Leased property under capital leases	15,795	5,265	-		21,060
Total accumulated depreciation	<u>1,906,981</u>	<u>210,456</u>	<u>(1,750)</u>	<u>-</u>	<u>2,115,687</u>
Total depreciable capital assets, net	<u>5,681,199</u>	<u>(189,331)</u>	<u>(3,553)</u>	<u>-</u>	<u>5,488,315</u>
Governmental activities capital assets, net	<u>\$ 5,758,182</u>	<u>\$ (189,331)</u>	<u>\$ (3,553)</u>	<u>\$ -</u>	<u>\$ 5,565,298</u>

**BENTON COUNTY 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	\$ 39,008
Support services	168,039
Non-instructional	3,409
Total depreciation expense	\$ 210,456

(6) Long-term Liabilities

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

	Balance 7/1/2004	Additions	Reductions	Balance 6/30/2005	Amounts due within one year
A. Three mill notes payable	\$ 817,000	-	31,000	786,000	33,000
B Shortfall notes payable	98,333	-	23,715	74,618	48,997
C. Obligations under capital leases	40,667	-	9,514	31,153	9,937
D. Qualified zone academy bonds payable	700,000	-	-	700,000	-
E Compensated absences payable	65,902	6,327	-	72,229	-
	\$ 1,721,902	6,327	64,229	1,664,000	91,934

Three-mill notes payable.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Three-mill note 2001	5.22%	4/15/2001	4/17/2021	\$ 900,000	786,000
Total				\$ 900,000	786,000

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

Year Ending June 30,	Principal	Interest	Total
2006	\$ 33,000	\$ 41,029	\$ 74,029
2007	35,000	39,307	74,307
2008	36,000	37,480	73,480
2009	38,000	35,600	73,600
2010	40,000	33,617	73,617
2011-2015	235,000	134,362	369,362
2016-2020	300,000	66,346	366,346
2021	69,000	3,602	72,602
Total	\$ 786,000	391,343	1,177,343

This debt will be retired from the three mill note retirement fund.

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

(6) Long-term Liabilities (Continued)

B. Shortfall notes payable.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Shortfall note, Series 2002	5.0%	6/28/2002	6/28/2005	\$ 73,000	24,333
Shortfall note, Series 2004	4.0%	6/20/2004	6/20/2007	74,000	50,285
Total				\$ 147,000	74,618

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

Year Ending June 30,	Principal	Interest	Total
2006	48,997	3,230	52,227
2007	25,621	1,026	26,647
Total	\$ 74,618	4,256	78,874

This debt will be retired from the tax shortfall note funds.

C. Obligation under capital leases.

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

The various options available to the lessee for this lease are as follows:

1. The school district has the right to pay the outstanding balance on any payment date if notice of the intention to exercise this option is given not less than 30 days prior to the payment date.
2. The school district has the right to purchase the leased property at the expiration of the lease for the total purchase price of \$1.

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

Year Ending June 30,	Principal	Interest and Maintenance Charges	Total
2006	9,937	1,384	11,321
2007	10,378	942	11,320
2008	10,838	481	11,319
Total	\$ 31,153	2,807	33,960

The school district uses the straight-line method of amortization for the lease payments which is not in accordance with accounting principles generally accepted in the United States of America. However, the difference between the effective interest method and the straight-line method is not considered material.

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

(6) Long-term Liabilities (Continued)

D. Qualified Zone Academy bonds payable.

As more fully explained in Note 8, debt has been issued by the school district that qualifies as Qualified Zone Academy bonds. Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
QZAB 2000	0.00%	7/1/2000	7/1/2012	\$ 700,000	700,000
Total				<u>\$ 700,000</u>	<u>700,000</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.

(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 rate through June 30, 2005 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 Benton County School District's contributions to PERS for the years ending June 30, 2005, 2004, and 2003, were \$515,957, \$454,853, and \$426,472, respectively, equal to 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.

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

(9) Qualified Zone Academy Bonds

Section 226 of the Taxpayer Relief Act of 1997 (Public Law 105-34) provides for a source of capital at no or nominal interest rates for costs incurred by certain public schools in connection with the establishment of special academic programs for kindergarten through secondary school, in partnership with the business community. The school district, in agreement with FEL-PRO, Webster's Supermarket, Farese Law Office and Ashland Middle School staff, has entered into such an arrangement dated June 22, 2000.

FEL-PRO will make an annual donation of \$1,000 per year for a total of \$5,000, plus the industry will provide labor for school work days, mentoring and field trips to the industry for a total of \$13,850 in labor.

Webster's Supermarket will provide an annual cash donation of \$500 per year for a total of \$2,500. Additionally, they will provide \$210 per year of merchandise for fund raisers and motivational purposes for a total of \$1,050.

Farese Law Office will provide an attorney to teach a class during career discovery time for Ashland Middle School students for a total of \$18,000.

Ashland Middle School staff will donate seven hours of time each (after school and weekends) to work as school mentors for students or other activities as needed for a contribution of \$21,120.

This agreement establishes a method of repayment for a qualified interest-free debt instrument. The agreement requires the school district to deposit funds annually into a sinking fund account on or before July 1. The amount accumulated in the sinking fund at the end of the ten-year period will be significant to retire the debt. The following schedule reports the yearly deposits to be made to the sinking fund by the school district.

Year Ending June 30	Amount
2006	42,000
2007	41,000
2008	41,000
2009	41,000
2010	41,000
2011-2013	123,000
Total	<u>\$ 329,000</u>

BENTON COUNTY SCHOOL DISTRICT

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BENTON COUNTY 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	\$ 1,186,761	1,447,816	1,494,124	261,055	46,308
State Sources	5,210,157	5,658,805	5,658,431	448,648	(374)
Federal Sources	104,000	121,962	122,335	17,962	373
Total Revenues	6,500,918	7,228,583	7,274,890	727,665	46,307
Expenditures					
Instruction	3,745,419	3,832,697	3,832,264	(87,278)	(433)
Support Services	2,420,255	2,537,479	2,532,058	(117,224)	(5,421)
Debt Service:					
Principal	11,320	11,320	9,514	-	1,806
Interest	-	-	1,806	-	(1,806)
Total Expenditures	6,176,994	6,381,496	6,375,642	(204,502)	5,854
Excess (Deficiency) of Revenues over Expenditures	323,924	847,087	899,248	523,163	52,161
Other Financing Sources (Uses)					
Insurance Recoveries	-	3,133	3,133	3,133	-
Operating Transfers In	714,303	707,964	27,996	(6,339)	(679,968)
Operating Transfers Out	(1,053,476)	(1,555,167)	(875,320)	(501,691)	679,847
Total Other Financing Sources (Uses)	(339,173)	(844,070)	(844,191)	(504,897)	(121)
Net Change in Fund Balance	(15,249)	3,017	55,057	18,266	52,040
Fund Balances					
July 1, 2004	325,510	325,510	330,129	-	4,619
June 30, 2005	310,261	328,527	385,186	18,266	56,659

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

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

(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 consistent with accounting principles generally accepted in the United States of America.

BENTON COUNTY 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	\$ 31,888
Child Nutrition Cluster:		
School breakfast program	10.553	170,632
National school lunch program	10.555	400,440
Summer food service program for children	10.559	7,136
Total Child Nutrition Cluster		<u>578,208</u>
Total U.S. Department of Agriculture		<u>610,096</u>
Federal Communications Commission		
Passed-through Universal Services Administrative Company		
The Schools and Libraries Program of the Universal Service Fund	32.xxx	11,177
Total Federal Communications Commission		<u>11,177</u>
U.S. Department of Education		
Passed-through New Albany School District		
Twenty First Century Community Learning Centers	84.287	117,741
Total passed through New Albany School District		<u>117,741</u>
Passed-through Mississippi Department of Rehabilitation Services:		
Rehabilitation services - vocational rehabilitation grants to states	84.126	3,074
Total passed through Mississippi Department of Rehabilitation Services		<u>3,074</u>
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	480,935
Vocational education - basic grants to states	84.048	21,910
Safe and drug-free schools and communities - state grants	84.186	8,376
State grants for innovative programs	84.298	1,942
Education technology state grants	84.318	14,710
Rural education	84.358	47,582
Improving teacher quality - state grants	84.367	141,255
Grants for state assessments and related activities	84.369	302
Total		<u>717,012</u>
Special education cluster:		
Special education - grants to states	84.027	212,292
Special education - preschool grants	84.173	24,068
Total		<u>236,360</u>
Total passed-through Mississippi Department of Education		<u>953,372</u>
Total U.S. Department of Education		<u>1,074,187</u>
Total for All Federal Awards		<u>\$ 1,695,460</u>

Notes to Schedule

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

BENTON COUNTY SCHOOL DISTRICT
Schedule of Instructional, Administrative and Other Expenditures- Governmental Funds
June 30, 2005

<u>Expenditures</u>	<u>Total</u>	<u>Instructional</u>	<u>Administrative</u>	<u>Other</u>
Salaries and fringe benefits	\$ 6,796,287	4,627,776	884,286	1,284,225
Other	2,061,770	536,737	156,829	1,368,204
Total	\$ 8,858,057	5,164,513	1,041,115	2,652,429
Total number of students *	1,350			
Cost per student	\$ 6,562	3,826	771	1,965

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).

Other - includes all expenditure functions not included in instruction or administrative.

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

BENTON COUNTY SCHOOL DISTRICT

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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
Benton County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Benton County School District as of and for the year ended June 30, 2005, and have issued our report thereon dated December 16, 2005. 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. 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. 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 misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Benton County 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.

Brawner, Vanstory + Co P.A.

December 16, 2005
Booneville, Mississippi

BENTON COUNTY SCHOOL DISTRICT

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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
Benton County School District

Compliance

We have audited the compliance of the Benton County School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The 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 school district's management. Our responsibility is to express an opinion on the school district's compliance based on our audit.

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

In our opinion, Benton County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

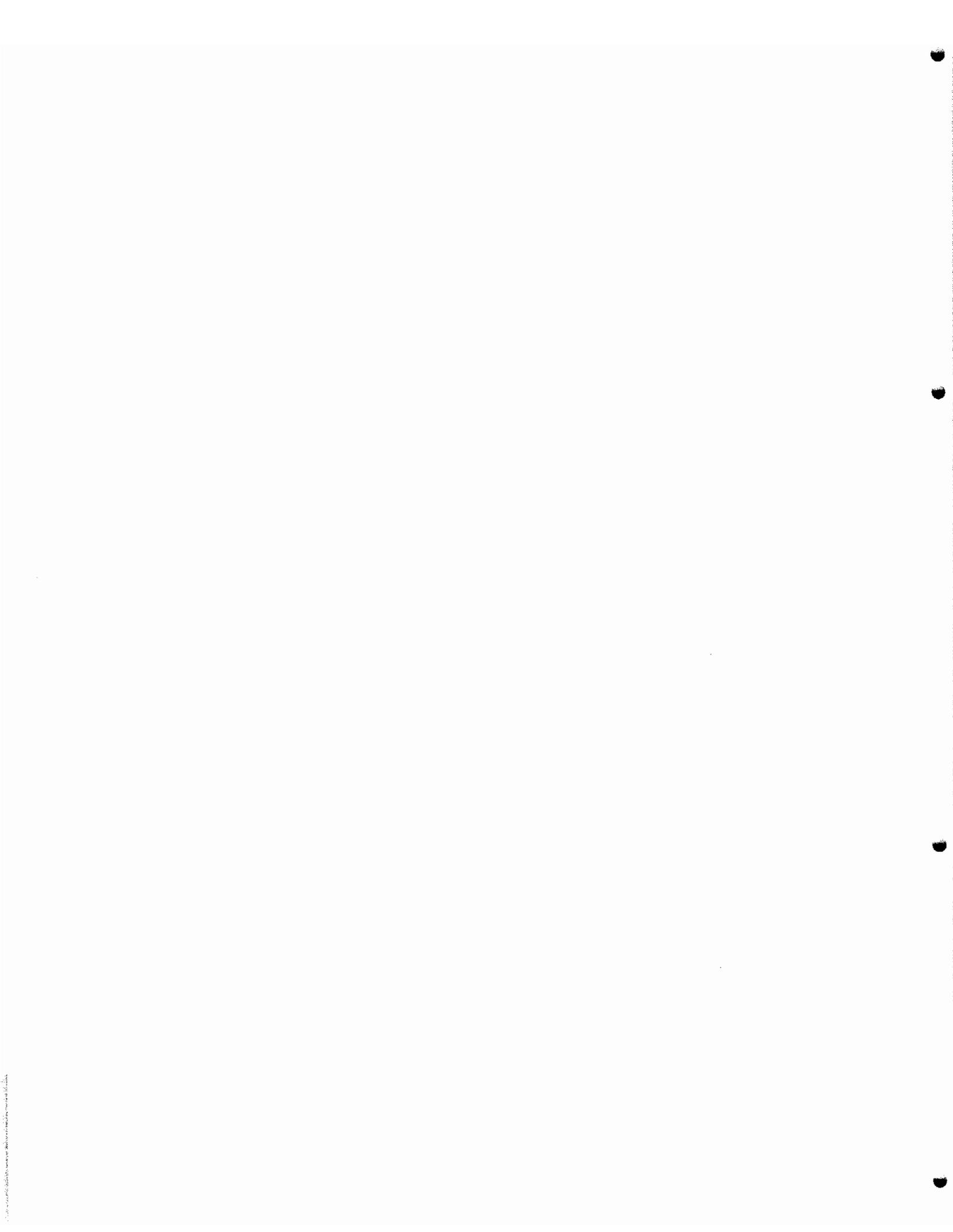
The management of the Benton County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the school district's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

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

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

Brauer, VanStony & Co. P.A.

December 16, 2005
Booneville, Mississippi





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

Superintendent and School Board
Benton County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Benton County School District as of and for the year ended June 30, 2005, which collectively comprise Benton County School District's basic financial statements and have issued our report thereon dated December 16, 2005. 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.

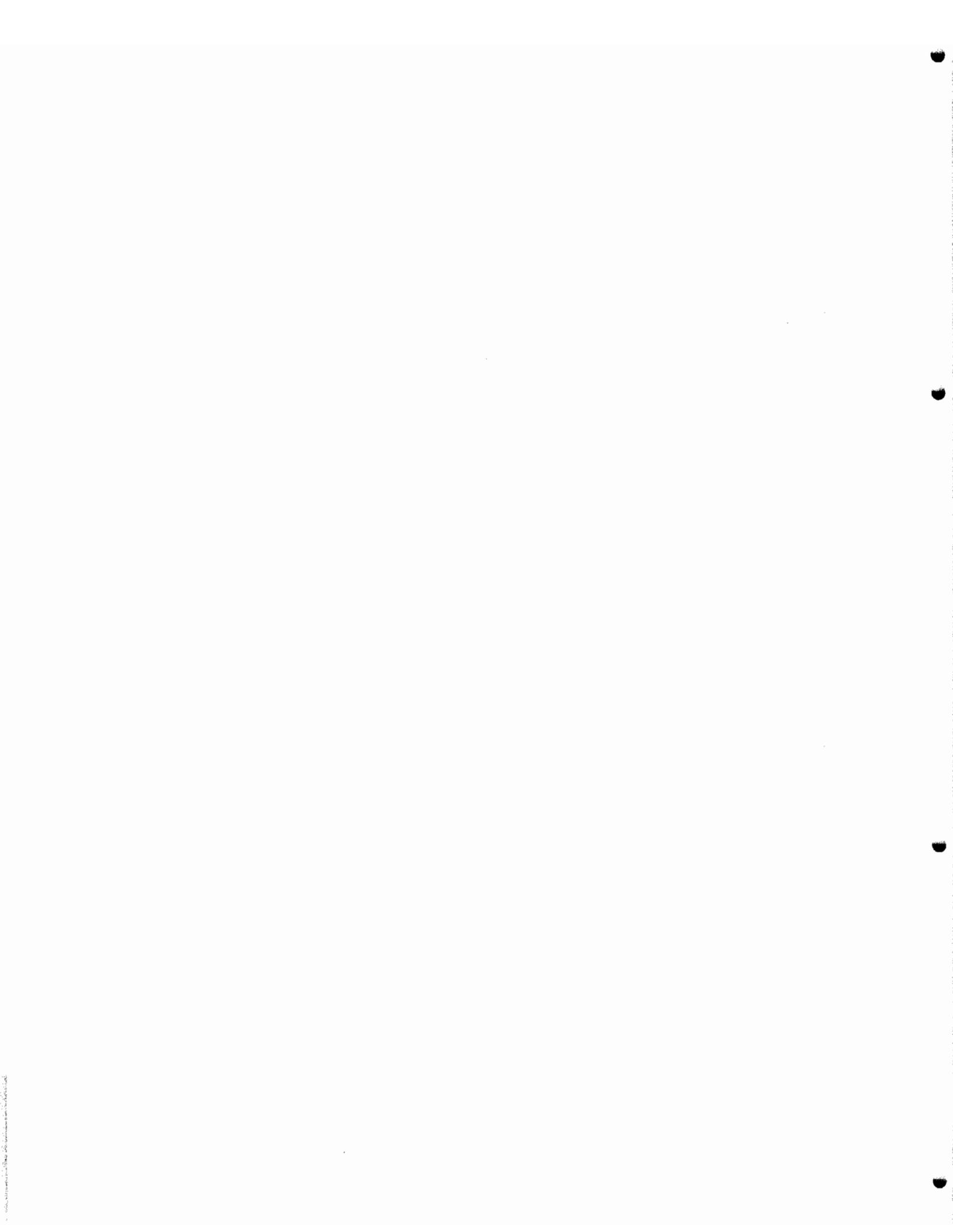
The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported no classroom supply funds carried over from previous years.

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.

Brawner, Vanstory & Co. P.A.

December 16, 2005
Booneville, Mississippi



**BENTON COUNTY 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? | No |
| | 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: | Unqualified |
| 5. | Internal control over major programs: | |
| | a. Material weakness(es) identified? | No |
| | 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: | |
| | Cluster: Child Nutrition | |
| | CFDA #10.553 | |
| | CFDA #10.555 | |
| | CFDA #10.559 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | Yes |
| 10. | Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section __.315(b) of OMB Circular A-133? | No |

Section 2: Financial Statement Findings

The results of our test did not disclose any findings related to the financial statements that are required to be reported by *Government Auditing Standards*.

Section 3: Federal Award Findings and Questioned Costs

The results of our tests did not disclose any findings and questioned costs related to the federal awards.

