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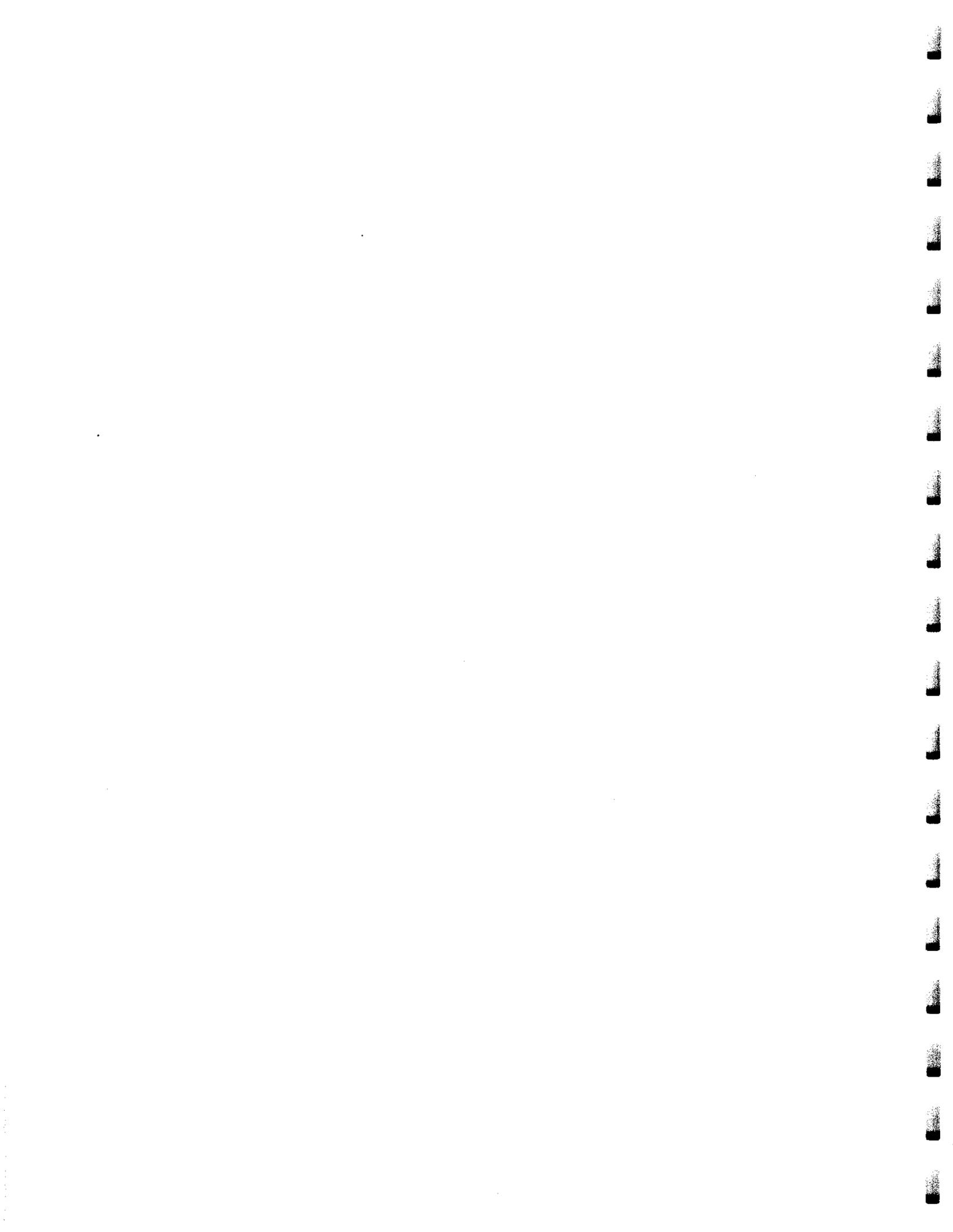
CANTON PUBLIC SCHOOL DISTRICT

**Audited Financial Statements
For the Year Ended June 30, 2005**



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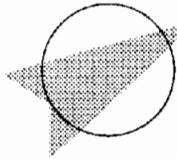


CANTON PUBLIC SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

CANTON PUBLIC SCHOOL DISTRICT

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Day CERTIFIED PUBLIC ACCOUNTANT

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Diane Shaw Day, CPA

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

Superintendent and School Board
Canton Public School District

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

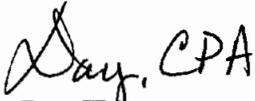
I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and 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. I believe that my audit provides a reasonable basis for my opinion.

In my 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 Canton Public School District, as of 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*, I have also issued my report dated May 11, 2006, on my consideration of the Canton Public School District's internal control over financial reporting and my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The Management's Discussion and Analysis on pages (7) through (13) and the Budgetary Comparison Schedule and corresponding notes on pages (43) through (45) are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Canton Public School District's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. . In addition, the Schedule of Instructional, Administrative and Other Expenditures- Governmental Funds is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Day, CPA
May 11, 2006

CANTON PUBLIC SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

CANTON PUBLIC SCHOOL DISTRICT

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

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

This discussion and analysis is an element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999. Certain comparative information between the current year and the prior year is required to be presented.

FINANCIAL HIGHLIGHTS

- Total net assets increased **\$2,883,723** from fiscal year 2004. This significant increase is due to the increase in overall general revenue.
- General revenues account for **\$18,583,188** in revenue, or **70%** of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for **\$7,846,273** or **30%** of total revenues.
- The District had **\$23,545,738** in expenses; only **\$7,846,273** of these expenses were offset by program specific charges for services, grants and contributions. General revenues of **\$18,583,188** were adequate to provide for these programs.
- Among major funds, the General Fund had **\$17,784,051** in revenues and **\$14,623,841** in expenditures. The General Fund's fund balance decreased **\$411,417** over the prior year. This decrease is the result of an increase in salary expenditures
- Capital assets, net of accumulated depreciation, increased by **\$2,240,970**.
- Long-term debt decreased by **\$1,478,610**.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

The government-wide financial statements can be found in this report.

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

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

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

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.

The basic governmental fund financial statements can be found in this report.

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

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

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund. This required supplementary information can be found in this report.

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 **\$18,570,737** as of June 30, 2005.

The District's net assets are comprised of 1) net assets invested in capital assets, net of related debt, 2) restricted net assets and 3) unrestricted net assets. \$8,157,970 of the District's net assets (44%) reflects its investment in capital assets (e.g., land, buildings, mobile equipment, furniture and equipment, leased property under capital leases and construction in progress, less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending. \$2,829,374 of the District's net assets (15%) reflects its restricted net assets. A portion of the restricted net assets is expendable for school based activities, debt services, forestry improvements, and unemployment benefits. The remaining portion of the restricted net assets is nonexpendable 16th section investment purposes. \$7,583,393 of the District's net assets (41%) reflects its unrestricted net assets.

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

The following table presents a summary of the District's net assets for the fiscal year ended June 30, 2005 compared to the same period in 2004.

	<u>2005</u>	<u>2004</u>
Current assets	\$ 23,094,652	22,695,482
Capital assets, net	<u>18,160,692</u>	<u>15,919,722</u>
Total assets	41,255,344	38,615,204
Current liabilities	2,380,130	1,552,781
Long-term debt outstanding	<u>20,304,477</u>	<u>21,783,087</u>
Total liabilities	22,684,607	23,335,868
Net assets:		
Invested in capital assets (net)	8,157,970	4,782,586
Restricted	2,829,374	2,440,217
Unrestricted	<u>7,583,393</u>	<u>8,056,533</u>
Total net assets	<u>\$18,570,737</u>	<u>15,279,336</u>

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

- The principal retirement of \$1,539,415 of long-term debt.
- The addition of **\$2,355,952** in construction in progress includes the start up cost for the construction of a new elementary school.

Changes in net assets. The District's total revenues for the fiscal year ended June 20, 2005 were \$26,429,461. The total cost of all programs and services was \$23,545,738. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2005 compared to the same period in 2004.

	<u>Amounts</u>	
Revenues:	<u>2005</u>	<u>2004</u>
Program revenues	\$ 7,846,273	5,925,481
General revenues	<u>18,583,188</u>	<u>17,150,366</u>
Total revenues	<u>26,429,461</u>	<u>23,075,847</u>
Expenses:		
Instruction	12,071,066	10,939,766
Support services	8,584,723	7,063,611
Non-instructional	1,908,859	1,920,759
Sixteenth section	33,824	33,112
Interest on long-term liabilities	<u>947,266</u>	<u>1,442,050</u>
Total expenses	<u>23,545,738</u>	<u>21,399,298</u>
Increase in net assets	\$ <u>2,883,723</u>	<u>1,676,549</u>

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

	<u>Total Expenses</u>		<u>Net(Expenses)Revenue</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Instruction	\$ 12,071,066	10,939,766	(8,806,964)	(8,731,680)
Support services	8,584,723	7,063,611	(5,836,292)	(5,304,630)
Non-instructional	1,908,859	1,920,759	(75,119)	37,655
Sixteenth section	33,824	33,112	(33,824)	(33,112)
Interest on long-term liab.	<u>947,266</u>	<u>1,442,050</u>	<u>(947,266)</u>	<u>(1,442,050)</u>
Total expenses	\$ <u>23,545,738</u>	<u>21,399,298</u>	<u>\$(15,699,465)</u>	<u>(15,473,817)</u>

- Net cost of governmental activities (\$15,699,465), was financed by general revenue, which is made up of primarily property taxes (\$4,845,274) and state revenue (\$13,148,415).
- Investment earnings accounted for \$438,380 of funding.
- Sixteenth Section sources accounted for \$151,119 of funding.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of **\$20,897,195**, a decrease of **\$440,011** due primarily to new construction cost. **\$7,739,848** or **37%** 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 **\$13,157,347** or **63%** 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 **(\$412,336)** a result of transfers to the building fund. The fund balance of Other Governmental Funds showed a decrease of **(\$444,070)**.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget. Significant revisions to the budget are as follows:

- Budget amounts for revenue from state sources was increased to full funding for Mississippi Adequate Education. The original budgeted amounts underestimated for potential cuts by the Mississippi legislature. This was done upon suggestion of the Mississippi Department of Education.

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 before depreciation were **\$24,282,769**, including school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of **\$3,297,008** from the previous year. Total accumulated depreciation as of June 30, 2005 was **\$6,122,077** and total depreciation expense for the year was \$843,819, resulting in total net assets of **\$18,160,692**.

Additional information of the District's capital assets can be found in Note 4 of this report.

Debt Administration. At June 30, 2005, the District had **\$20,304,477** in general obligation bonds and other long-term debt outstanding, of which **\$1,124,712** is due within one year. Principal payments of **1,539,415** were made during the fiscal year.

Additional information of the District's long-term debt can be found in Note 5 of this report.

CURRENT ISSUES

The Canton Public 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. Due to a substantial increase in assessed valuation the millage rate for 2005 is less than the rate for 2004. In addition, the District system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

Latest enrollment figures indicate that student enrollment in the District declined approximately 91 students from fiscal year 2004. The budget for the next fiscal year has taken into account this reduction in both funding and staffing needs.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Canton Public School District, 403 East Lincoln Street, Canton, MS 39046 .

CANTON PUBLIC SCHOOL DISTRICT

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CANTON PUBLIC SCHOOL DISTRICT

FINANCIAL STATEMENTS

CANTON PUBLIC SCHOOL DISTRICT

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CANTON PUBLIC SCHOOL DISTRICT
Statement of Net Assets
June 30, 2005

Exhibit A

	Primary Government Governmental Activities
Assets	
Cash and cash equivalents (Note 2)	\$ 13,611,399
Cash with fiscal agents (Note 2)	8,117,682
Due from other governments	1,048,147
Other Receivable, net	48,435
Inventories and prepaid items	47,461
Restricted assets	221,528
Capital assets, net (Note 4)	18,160,692
Total Assets	<u>\$ 41,255,344</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 2,134,725
Deferred revenue	62,732
Interest payable on long-term liabilities	182,673
Long-term liabilities, due within one year (Note 5)	
Capital related liabilities	909,712
Non-capital related liabilities	215,000
Long-term liabilities, due beyond one year (Note 5)	
Capital related liabilities	9,093,010
Non-capital related liabilities	10,086,755
Total Liabilities	<u>\$ 22,684,607</u>
Net Assets	
Investment in capital assets, net of related debt	\$ 8,157,970
Restricted net assets:	
Expendable:	
School - based activities	1,980,630
Debt service	442,917
Capital improvements	115,457
Forestry improvements	34,616
Unemployment benefits	34,644
Non-expendable:	
Sixteenth section	221,110
Unrestricted	7,583,393
Total Net Assets	<u>\$ 18,570,737</u>

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

CANTON PUBLIC SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2005

Exhibit B

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets Primary Government Governmental Activities
		Charges for Services	Operating Grants and Contributions	
Primary Government:				
Governmental Activities:				
Instruction	\$ 12,071,066	720,905	2,543,197	(8,806,964)
Support services	8,584,723		2,748,431	(5,836,292)
Non-instructional	1,908,859	210,187	1,623,553	(75,119)
Sixteenth section	33,824			(33,824)
Interest and other charges related to long-term liabilities	947,266			(947,266)
Total governmental activities	\$ 23,545,738	931,092	6,915,181	(15,699,465)

General Revenues:

Taxes:

General purpose levies	3,803,923
Debt purpose levies	1,041,351

Unrestricted grants and contributions:

State	13,148,415
Unrestricted investment earnings	438,380
Sixteenth section sources	151,119

Total General Revenues 18,583,188

Change in Net Assets 2,883,723

Net Assets - Beginning 15,279,336

Prior Period Adjustments (Note 9): 407,678

Net Assets - Beginning - Restated 15,687,014

Net Assets - Ending \$ 18,570,737

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

CANTON PUBLIC SCHOOL DISTRICT
 Balance Sheet - Governmental Funds
 June 30, 2005

Exhibit C

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	Title I Fund	Building Project 2002 Bonds Fund		
ASSETS					
Cash and cash equivalents (Note 2)	\$ 8,156,163	306,230	2,679,471	2,691,063	13,832,927
Cash with fiscal agents (Note 2)			8,114,447	3,235	8,117,682
Due from other governments	249,930	93,848		704,369	1,048,147
Lease receivables				19,720	19,720
Due from other funds (Note 3)	314,712	2,064		70,697	387,473
Inventories and prepaid items				47,461	47,461
Total Assets	\$ 8,720,805	402,142	10,793,918	3,536,545	23,453,410
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	\$ 927,813	300,997	610,234	295,681	2,134,725
Due to other funds (Note 3)	53,144	101,145		204,469	358,758
Deferred revenue				62,732	62,732
Total Liabilities	980,957	402,142	610,234	562,882	2,556,215
Fund Balances:					
Reserved for:					
Inventory				47,461	47,461
Capital Projects funds			10,183,684	77,073	10,260,757
Debt Service funds				625,590	625,590
Unemployment benefits				34,644	34,644
Forestry improvements				34,616	34,616
Permanent funds				221,110	221,110
Unreserved:					
Undesignated, reported in:					
General fund	7,739,848				7,739,848
Special Revenue funds				1,933,169	1,933,169
Total Fund Balances	7,739,848	-	10,183,684	2,973,663	20,897,195
Total Liabilities and Fund Balances	\$ 8,720,805	402,142	10,793,918	3,536,545	23,453,410

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

CANTON PUBLIC SCHOOL DISTRICT
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2005

Exhibit C-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 20,897,195
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 \$6,122,077.	18,160,692
2 Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (Note 5)	(20,304,477)
3 Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.	(182,673)
Total Net Assets - Governmental Activities	\$ <u>18,570,737</u>

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

CANTON PUBLIC SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2005

Exhibit D

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	Title I Fund	Building Project 2002 Bonds Fund		
Revenues:					
Local sources	\$ 4,670,597		123,272	1,420,878	6,214,747
State sources	12,246,880			1,370,875	13,617,755
Federal sources	866,574	2,356,695		3,222,571	6,445,840
Sixteenth section sources				151,119	151,119
Total Revenues	<u>17,784,051</u>	<u>2,356,695</u>	<u>123,272</u>	<u>6,165,443</u>	<u>26,429,461</u>
Expenditures:					
Instruction	8,569,181	1,158,301		1,985,882	11,713,364
Support services	6,031,256	1,000,000		1,400,049	8,431,305
Noninstructional services		127,228		1,703,152	1,830,380
Sixteenth section				33,824	33,824
Facilities acquisition and construction	18,350		2,355,952		2,374,302
Debt service:					
Principal	4,414			1,535,000	1,539,414
Interest	640			940,638	941,278
Other				17,820	17,820
Total Expenditures	<u>14,623,841</u>	<u>2,285,529</u>	<u>2,355,952</u>	<u>7,616,365</u>	<u>26,881,687</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>3,160,210</u>	<u>71,166</u>	<u>(2,232,680)</u>	<u>(1,450,922)</u>	<u>(452,226)</u>
Other Financing Sources (Uses):					
Operating transfers in	505,243		2,649,075	1,326,246	4,480,564
Insurance loss recovery	17,649				17,649
Operating transfers out	(4,094,519)	(70,886)		(315,159)	(4,480,564)
Total Other Financing Sources (Uses)	<u>(3,571,627)</u>	<u>(70,886)</u>	<u>2,649,075</u>	<u>1,011,087</u>	<u>17,649</u>
Net Change in Fund Balances	<u>(411,417)</u>	<u>280</u>	<u>416,395</u>	<u>(439,835)</u>	<u>(434,577)</u>
Fund Balances:					
July 1, 2004	8,152,184		9,767,289	3,417,733	21,337,206
Prior period adjustments (Note 9)	(919)	(280)		(8,123)	(9,322)
July 1, 2004, as restated	<u>8,151,265</u>	<u>(280)</u>	<u>9,767,289</u>	<u>3,409,610</u>	<u>21,327,884</u>
Increase in reserve for inventory				3,888	3,888
June 30, 2005	\$ <u>7,739,848</u>	<u>-</u>	<u>10,183,684</u>	<u>2,973,663</u>	<u>20,897,195</u>

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

CANTON PUBLIC 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

Exhibit D-1

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ (434,577)
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 asset purchase amounted to \$2,668,107 and the depreciation expense amounted to \$843,819. (Note 4)	1,824,288
2 Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of activity. (Note 5)	1,539,415
3 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 activity.	3,888
4 Gains and losses on sale or disposals of assets are not reported in the governmental funds, but are reported in the statement of activity.	(318)
5 Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the statement of activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net assets differs from the change in fund balances by a combination of the following items:	
Compensated absences	(60,805)
Accrued interest on bonds and notes payable	11,832
Change in Net Assets of Governmental Activities	\$ <u>2,883,723</u>

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

CANTON PUBLIC SCHOOL DISTRICT
Statement of Fiduciary Net Assets
June 30, 2005

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents (Note 2)	\$ 44,051
	<hr/>
Total Assets	\$ 44,051
	<hr/>
Liabilities	
Due to other funds	\$ 28,715
Due to student clubs	<u>15,336</u>
	<hr/>
Total Liabilities	\$ 44,051
	<hr/>

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

CANTON PUBLIC SCHOOL DISTRICT

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CANTON PUBLIC 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 an "other stand-alone government." The school district is a related organization of, but not a component unit of, the city of Canton since the governing authority of the city selects a majority of the school district's board but does not have financial accountability for the school district.

B. Basis of Presentation.

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

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

CANTON PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005

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. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. 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 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 - This fund is used to account for Title I funds set aside to provide local educational agencies (LEA) with extra resources to help improve instruction in high-poverty school and to ensure that poor and minority children have the same opportunity as other children to meet challenging state academic standards.

Building Project 2002 Bonds Fund - This is a fund used to account for proceeds and expenditures of the capital projects of the district.

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

CANTON PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005

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

FIDUCIARY FUNDS

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

D. Account Classifications.

The account classifications used in the financial statements conform to the classifications prescribed in the *Financial Accounting Manual for Mississippi Public School Districts* issued by the Office of the State Auditor. The classifications in that manual are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 1990* issued by the U.S. Department of Education.

E. Encumbrances.

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

F. Cash and Cash Equivalents.

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

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

G. Investments.

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

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

H. Inventories and Prepaid Items.

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

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

CANTON PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005

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

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

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

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

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

J. Long-term liabilities.

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

K. Interfund Transactions and Balances.

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

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

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

CANTON PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005

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

L. Equity Classifications.

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

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

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

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

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

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

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

CANTON PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005

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

M. Property Taxes.

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

N. Mississippi Adequate Education Program Revenues.

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

O. Compensated Absences.

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

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

(2) Changes in Accounting Standards

As required, the School District has implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures- and 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

Cash and Cash Equivalents, and Cash with Fiscal Agents.

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 reported in the governmental funds and fiduciary funds was \$13,832,927 and \$44,051, respectively. The carrying amount of deposits reported in the government-wide financial statements was: Cash and Cash Equivalents - \$13,611,399 and Restricted Assets –

CANTON PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005

\$221,528. The Restricted Assets represent the cash balance of the sixteenth section principal fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$14,444,009.

Custodial Credit Risk – Deposits. Custodial credit risk is defined as the risk that, in the event of a financial institutions failure, the district's deposits may not be returned to it. The district does not have a deposit for custodial credit risk. As of June 30, 2005, none of the district's bank balance 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 \$8,117,682.

(3) **Interfund Transactions and Balances.**

The following is a summary of interfund transactions and balances:

A. **Due From/To Other Funds:**

	Due From	Due To
Governmental Funds:		
General fund	\$ 314,712	53,144
Title I fund	2,064	101,145
Other governmental funds	70,697	204,469
Agency Funds:		
Payroll clearing fund		28,130
Accounts payable clearing fund		585
Total Funds	\$ 387,473	387,473

B. **Transfers In/Out.**

	Transfer In	Transfers Out
Governmental Funds:		
General fund	\$ 505,243	4,094,519
Title I fund		70,886
Building Project 2002 Bonds fund	2,649,075	
Other governmental funds	1,326,246	315,159
Total Funds	\$ 4,480,564	4,480,564

The transfers were mainly to fund capital project, debt service, vocational education, textbooks, special education, alternative school program, and the NJROTC program expenditures.

CANTON PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005

(4) 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	\$ 68,710				68,710
Construction in progress	630,084	2,355,952		(46,344)	2,939,692
Total non-depreciable capital assets	698,794	2,355,952		(46,344)	3,008,402
<u>Depreciable capital assets:</u>					
Buildings	17,835,791			46,344	17,882,135
Mobile equipment	1,398,534	118,894			1,517,428
Furniture and equipment	1,027,367	193,261	(31,730)	660,631	1,849,529
Leased property under Capital leases	25,275				25,275
Total depreciable capital assets	20,286,967	312,155	(31,730)	706,975	21,274,367
<u>Less accumulated depreciation for:</u>					
Buildings	3,504,795	362,364			3,867,159
Mobile equipment	865,928	101,081			967,009
Furniture and equipment	686,975	372,033	(31,412)	243,631	1,271,227
Leased property under Capital leases	8,341	8,341			16,682
Total accumulated depreciation	5,066,039	843,819	(31,412)	243,631	6,122,077
Total depreciable capital assets, net	15,220,928	(531,664)	(318)	463,344	15,152,290
Governmental activities capital assets, net	\$ 15,919,722	1,824,288	(318)	417,000	18,160,692

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 341,064
Support services	425,378
Non-instructional	77,377
Total depreciation expense	\$ 843,819

CANTON PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005

Commitments under construction contracts at June 30, 2005, are summarized as follows:

	Remaining Commitment	Required Future Financing
New Elementary School	\$ 6,888,845	0
McNeal Elementary School Addition	924,317	0
Total	\$ 7,813,162	0

The prior period adjustments to capital assets and the accumulated depreciation are mainly due to the understatement of equipment purchased through the federal Erate Program in prior years. In addition, a prior period adjustment was also necessary to correct the misclassification of completed construction.

(5) Long-term liabilities.

The following is a summary of changes in 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. General obligation bonds payable	\$ 6,230,000		500,000	5,730,000	530,000
B. Limited obligation bonds payable	485,000		485,000	-	-
C. Certificate of participation payable	12,590,000		465,000	12,125,000	500,000
D. Three mill notes payable	2,370,000		85,000	2,285,000	90,000
E. Obligation under capital leases	12,436		4,415	8,021	4,712
F. Compensated absences payable	95,651	60,805		156,456	-
Total	\$ 21,783,087	60,805	1,539,415	20,304,477	1,124,712

A. General obligation bonds payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General Obligation bonds					
Series 1988	Varies	07-01-88	05-01-08	\$ 2,500,000	855,000
Series 2003, Refunding	Varies	12-01-03	04-01-17	\$ 4,990,000	4,875,000
Total				\$ 7,490,000	5,730,000

CANTON PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005

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

YEAR ENDING	PRINCIPAL	INTEREST	PAYMENT
2006	\$ 530,000	214,387	744,387
2007	555,000	193,564	748,564
2008	575,000	171,477	746,477
2009	605,000	146,153	751,153
2010	375,000	126,563	501,563
2011-2015	2,120,000	434,312	2,554,312
2016-2017	970,000	58,600	1,028,600
TOTAL	\$ 5,730,000	1,345,056	7,075,056

The amount of bonded indebtedness that can be incurred by the school district is limited by state statute. Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in state statutes, have been met. As of June 30, 2005, the amount of outstanding bonded indebtedness was equal to 5% of property assessments as of October 1, 2004. This debt will be retired from the Bond Issue Retirement Fund.

B. Limited obligation bonds payable.

The limited obligation bonds payable was retired as of June 30, 2005.

C. Certificates of participation payable.

As more fully explained in Note 14, certificates of participation have been issued by the school district. Certificates of participation currently outstanding are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Certificate of Participation:					
Series 1996	Varies	12-01-96	12-01-16	\$ 1,430,000	1,030,000
Series 2002A	4.70%	04-01-02	04-01-13	2,425,000	2,425,000
Series 2002B	Varies	04-01-02	04-01-22	2,750,000	2,660,000
Series 2003	Varies	02-01-03	04-01-22	6,325,000	6,010,000
Total				\$ 12,930,000	12,125,000

CANTON PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005

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

Year Ending June 30	Principal	Interest	Total
2006	\$ 500,000	547,544	1,047,544
2007	520,000	525,586	1,045,586
2008	550,000	502,160	1,052,160
2009	580,000	476,636	1,056,636
2010	610,000	449,449	1,059,449
2011-2015	3,510,000	1,787,343	5,297,343
2016-2020	4,055,000	960,751	5,015,751
2021-2024	1,800,000	126,850	1,926,850
Total	\$ 12,125,000	5,376,319	17,501,319

This debt will be retired from the EEF Building & Buses and Bond Retirement Funds.

D. Three mill notes payable.

Debt currently outstanding is as follows

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Limited tax note, series 2002A	4.35%	04-01-02	04-01-09	510,000	385,000
Limited tax note, series 2002B	Varies	04-01-02	04-01-22	1,955,000	1,900,000
Total				\$ 2,465,000	2,285,000

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

Year Ending June 30	Principal	Interest	Total
2006	\$ 90,000	109,863	199,863
2007	95,000	105,409	200,409
2008	95,000	100,846	195,846
2009	105,000	96,375	201,375
2010	110,000	91,411	201,411
2010-2014	610,000	386,238	996,238
2015-2019	800,000	222,695	1,022,695
2020-2023	380,000	29,807	409,807
Total	\$ 2,285,000	1,142,644	3,427,644

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

CANTON PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005

E. Obligations 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 a copier.

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

1. The district may purchase the equipment, as is and without warranty, at the fair market value as determined by the lessor.
2. The district may return the equipment at the costs and risks of the district. The district shall also be responsible for compensating the lessor for any circumstances resulting in a loss of value in excess of normal wear and tear.
3. The district may continue the lease for thirty-day increments for an indefinite period under the original terms of the lease agreement.

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

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 4,712	343	5,055
2007	3,309	49	3,358
 Total	 <u>\$ 8,021</u>	 <u>392</u>	 <u>8,413</u>

This debt will be retired from the District Maintenance Fund.

F. 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.

(6) Defined Benefit Pension Plan.

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

CANTON PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005

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 and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2005, 2004 and 2003 were \$1,227,115, \$1,105,772, and \$1,006,095, respectively, which equaled the required contributions for each year.

(7) Other Commitments.

Commitments under construction contracts are described in Note 4.

(8) Sixteenth Section Lands.

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

Year Ending June 30	Amount
2006	\$ 22,728
2007	12,680
2008	12,680
2009	12,680
2010	13,411
2011-2015	62,534
2016-2020	53,154
2021-2025	12,779
2026-2030	12,154
Thereafter	25,170
Total	\$ 239,970

9) Prior Period Adjustments/Exhibits.

A summary of significant fund equity adjustments is as follows:

Exhibit B - Statement of Activities

<u>Explanation(s)</u>	<u>Amount</u>
1. Understatement of revenue	660,631
2. Understatement of expenses	(243,631)
3. Overstatement of revenue	(8,123)
3. Understatement of expenses	(1,199)
Total	\$ 407,678

CANTON PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005

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

	Explanations		
Major Funds:			
General Fund	Understatement of expenditures	\$	(919)
Title I	Understatement of expenditures		(280)
Other Governmental Funds	Overstatement of revenue		(8,123)
	Total	\$	<u>(9,322)</u>

(10) Other Commitments.

On October 10, 2005, the school district entered into a contract with Wilkinson Construction Company in the amount of \$889,500 for repairs and renovations of McNeal Elementary School.

(11) Risk Management.

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

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 a fund held in trust by BancorpSouth Bank 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.

CANTON PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005

(12) Prior Year Defeasance of Debt.

In prior years, the Canton Public School District defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the district's financial statements. On June 30, 2005, \$4,540,000 of bonds outstanding are defeased.

(13) Related Party Transactions.

The district entered into an agreement with the Madison County Human Resource Agency in which the district's School Lunch Program would provide meals to the Madison County Human Resource Agency. Meals were provided by the district to the agency during the fiscal year ended June 30, 2005 resulting in total revenues to the district's school lunch program of \$75,138 and a receivable of \$27,964. The executive director of the Madison County Resource Agency also serves as a member of the Board of Directors for the Canton Public School District.

The district entered into an agreement with James Goodloe, Jr. in which the district leased 149.91 acres of land in 16-T9N-R3E to D & J Farms for an amount of \$5,996 annually. James Goodloe, Jr. is the son of Jimmie Goodloe who is a member of the Board of Directors for the Canton Public School District. The district further consented to the sub-lease of this acreage to Harry Lee James.

The school board approved the payment of \$377 to Mack Robinson, an employee of the district, for replacing old lettering on a school bus.

(14) Trust Certificates

A trust agreement dated December 1, 1996, was executed by and between the Canton Public School District and Trustmark National Bank of Jackson, Mississippi, as trustee.

The trust agreement authorized the issuance of certificates of participation (School facilities improvement project) in the principal amount of \$1,430,000. Approximately \$1,419,764 was used to provide the financing for the renovations, equipping, construction and improvements of school facilities (the "project"); the remainder of approximately \$10,236 was used to pay the cost of issuance.

A trust agreement dated May 16, 2002, was executed by and between the Canton Public School District and Trustmark National Bank of Jackson, Mississippi, as trustee.

The trust agreement authorized the issuance of certificates of participation (School facilities improvement project) in the principal amount of \$2,425,000. Approximately \$2,407,344 was used to provide the financing for the renovations, equipping, construction and improvements of school facilities (the "project"); the remainder of approximately \$17,656 was used to pay the cost of issuance.

A trust agreement dated May 16, 2002, was executed by and between the Canton Public School District and Trustmark National Bank of Jackson, Mississippi, as trustee.

CANTON PUBLIC SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005

The trust agreement authorized the issuance of certificates of participation (School facilities improvement project) in the principal amount of \$2,750,000. Approximately \$2,730,312 was used to provide the financing for the renovations, equipping, construction and improvements of school facilities (the "project"); the remainder of approximately \$19,688 was used to pay the cost of issuance.

A trust agreement dated February 1, 2003, was executed by and between the Canton Public School District and Trustmark National Bank of Jackson, Mississippi, as trustee.

The trust agreement authorized the issuance of certificates of participation (School facilities improvement project) in the principal amount of \$6,325,000. Approximately \$6,187,411 was used to provide the financing for construction and renovations of school buildings and related facilities and equipment (the "project"); the remainder of approximately \$137,589 was used to pay the cost of issuance and the discount amount.

The projects are leased to the school district in accordance with provisions of the Emergency School Leasing Authority Act of 1986 as described in Section 37-7-351, *et seq.*, Miss. Code Ann. (1972). The leases represent a capital lease under which ownership of the project will transfer to the school district upon complete retirement of the certificates of participation. The school district is obligated to make lease payments to the trustee in an amount equal to the debt service requirements for certificates of participation.

It is not anticipated that the projects will have sufficient value to satisfy the certificates in the event the school district defaults under the lease; therefore, the source of payment of certificates is the responsibility of the school district. See note 5(C) for details regarding the debt service requirement on the certificates.

Using guidelines provided in Section 2100 of the Codification of Governmental Accounting and Financial Reporting Standards dealing with defining the reporting entity, the trust accounts created by this trust agreement were deemed to constitute an inseparable part of the school district. Therefore, the assets, liabilities, equity, revenues, expenditures and other financing sources/uses of the trust accounts created by the trust agreements were consolidated as part of the school district's financial statements, thereby eliminating the effects of the lease agreement for financial reporting purposes.

CANTON PUBLIC SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

CANTON PUBLIC SCHOOL DISTRICT

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CANTON PUBLIC SCHOOL DISTRICT
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 4,733,512	4,670,597	4,670,597	(62,915)	-
State sources	12,055,362	12,246,880	12,246,880	191,518	-
Federal sources	103,732	150,663	866,574	46,931	715,911
Total Revenues	16,892,606	17,068,140	17,784,051	175,534	715,911
Expenditures:					
Instruction	9,079,868	8,569,181	8,569,181	510,687	-
Support services	5,875,940	5,310,475	6,031,256	565,465	(720,781)
Facilities acquisition and construction		18,350	18,350	(18,350)	-
Debt service:					
Principal	5,000	4,414	4,414	586	-
Interest	1,000	640	640	360	-
Total Expenditures	14,961,808	13,903,060	14,623,841	1,058,748	(720,781)
Excess (Deficiency) of Revenues Over Expenditures	1,930,798	3,165,080	3,160,210	1,234,282	(4,870)
Other Financing Sources (Uses):					
Operating transfers in	561,897	505,243	505,243	(56,654)	-
Insurance loss recovery		17,649	17,649	17,649	-
Operating transfers out	(1,109,545)	(4,094,519)	(4,094,519)	(2,984,974)	-
Total Other Financing Sources (Uses)	(547,648)	(3,571,627)	(3,571,627)	(3,023,979)	-
Net Change in Fund Balances	1,383,150	(406,547)	(411,417)	(1,789,697)	(4,870)
Fund Balances:					
July 1, 2004	6,098,630	8,139,650	8,152,184	2,041,020	12,534
Prior period adjustments (Note 9)	(1,000)	11,615	(919)	12,615	(12,534)
July 1, 2004, as restated	6,097,630	8,151,265	8,151,265	2,053,635	-
June 30, 2005	\$ 7,480,780	7,744,718	7,739,848	263,938	(4,870)

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

CANTON PUBLIC SCHOOL DISTRICT
 Budgetary Comparison Schedule
 Title I
 For the Year Ended June 30, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	1,671,377	2,356,695	2,356,695	685,318	-
Total Revenues	1,671,377	2,356,695	2,356,695	685,318	-
Expenditures:					
Instruction	694,757	1,158,301	1,158,301	(463,544)	-
Support services	770,788	1,000,000	1,000,000	(229,212)	-
Noninstructional services	142,743	127,228	127,228	15,515	-
Total Expenditures	1,608,288	2,285,529	2,285,529	(677,241)	-
Excess (Deficiency) of Revenues Over Expenditures	63,089	71,166	71,166	8,077	-
Other Financing Sources (Uses):					
Operating transfers out	(63,089)	(70,886)	(70,886)	(7,797)	-
Total Other Financing Sources (Uses)	(63,089)	(70,886)	(70,886)	(7,797)	-
Net Change in Fund Balances	-	280	280	280	-
Fund Balances:					
July 1, 2004	-	-	-	-	-
Prior period adjustments (Note 9)		(280)	(280)	(280)	
July 1, 2004, as restated		(280)	(280)	(280)	
June 30, 2005	\$ -	-	-	-	-

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

CANTON PUBLIC SCHOOL DISTRICT
Notes to the Required Supplementary Information
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 and each major special revenue fund consistent with accounting principles generally accepted in the United States of America.

(3) Prior year correction.

The prior year audit report for the fiscal year ended June 30, 2003, incorrectly reported facilities acquisition and construction expenditures, budgeted and actual amounts, for the Title I Fund. These amounts should have been reported as non-instructional expenditures.

CANTON PUBLIC SCHOOL DISTRICT

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CANTON PUBLIC SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

CANTON PUBLIC SCHOOL DISTRICT

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CANTON PUBLIC 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>U.S. Department of Agriculture</u>		
Pass-through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	\$ 107,874
Child nutrition cluster:		
School breakfast program	10.553	296,992
National school lunch program	10.555	1,164,656
Summer food service program for children	10.559	91,438
Total Child Nutrition Cluster		<u>1,553,086</u>
Special supplemental food program for women, infants, and children	10.557	16,735
Total		<u>1,677,695</u>
<u>U.S. Department of Education</u>		
Title 1-grants to local educational agencies	84.010	2,420,202
Vocational education - basic grants to states	84.048	74,866
Safe and drug-free schools and communities- state grants	84.186	49,357
State grants for Innovative programs	84.298	33,592
Education technology state grants	84.318	85,050
Teacher quality enhancement grants	84.336	7,800
Improving teacher quality - state grant	84.367	549,972
Total		<u>3,220,839</u>
Special education cluster:		
Special education - grants to states	84.027	633,480
Special education - preschool grants	84.173	15,260
Total		<u>648,740</u>
Total U.S. Department of Education		<u>3,869,579</u>
<u>Other Federal Assistance</u>		
Reserve Officers' Training Corps	12.XXX	59,471
Total		<u>59,471</u>
Total for All Federal Awards		<u>\$ 5,606,745</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 expenditures amounts include transfers out.
3. The pass-through entities did not assign identifying numbers to the school district.

Canton Public 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>Instruction</u>	<u>Administrative</u>	<u>Other</u>
Salaries and fringe benefits	\$ 16,611,374	10,625,959	2,026,205	3,959,210
Other	10,270,313	1,087,405	232,388	8,950,520
Total	\$ 26,881,687	11,713,364	2,258,593	12,909,730
Total number of students	2,966			
Cost per student	\$ 9,063	3,949	761	4,353

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 Administration (2300s); Support Services - School Administration (2400s); and Support Services - Business (2500s)

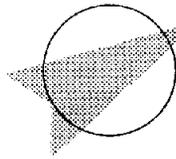
Other - includes all expenditure functions not included in Instruction or Administrative

CANTON PUBLIC SCHOOL DISTRICT

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

CANTON PUBLIC SCHOOL DISTRICT

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Diane Shaw Day, CPA

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

Superintendent and School Board
Canton Public School District

I have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Canton Public School District as of and for the year ended June 30, 2005, and have issued my report thereon dated May 11, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the school district's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my opinion, could adversely affect the school district's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the Schedule of Findings and Questioned Costs as Findings 2005-1 through 2005-5.

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 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. My consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions and, accordingly, would not also disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described in the findings referred to above, I consider Findings 2005-1 and 2005-2 to be material weaknesses.

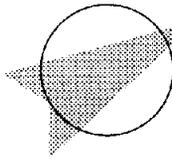
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 my audit and, accordingly, I do not express such an opinion. The results of my tests did not disclose any instances of noncompliance that are required to be reported under *Government Auditing Standards*

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

A handwritten signature in black ink that reads "Day, CPA". The signature is written in a cursive style with a large, stylized "D" and "A".

Day, CPA
May 11, 2006



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

Superintendent and School Board
Canton Public School District

Compliance

I have audited the compliance of the Canton Public 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 auditor's results section of the Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the school district's management. My responsibility is to express an opinion on the school district's compliance based on my audit.

I conducted my 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 I 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 I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the school district's compliance with those requirements.

In my opinion, Canton Public 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 Canton Public 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 my audit, I 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 my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

I noted certain matter involving the internal control over compliance and its operation that I consider to be a reportable condition. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my opinion, could adversely affect the school district's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the Schedule of Findings and Questioned Costs as Findings 2005-6, 2005-7, 2005-8 and 2005-9.

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 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. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described in the findings referred to above, I consider Findings 2005-6 and 2005-7 to be material weaknesses.

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



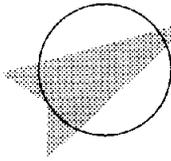
Day, CPA
May 11, 2006

CANTON PUBLIC SCHOOL DISTRICT

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

CANTON PUBLIC SCHOOL DISTRICT

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Diane Shaw Day, CPA

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

Superintendent and School Board
Canton Public School District

I have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Canton Public School District as of and for the year ended June 30, 2005, which collectively comprise the Canton Public School District's basic financial statements and have issued my report thereon dated May 11, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Section 37-9-18(3), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure that the school district is complying with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds". As required by the state legal compliance audit program prescribed by the Office of the State Auditor, I 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 my audit and, accordingly, I do not express such an opinion.

The results of my 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 \$29,490 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 my audit of the financial statements disclosed the following immaterial instances of noncompliance with other state laws and regulations. My findings and recommendations and your responses are as follows:

1. FINDING

In accords with Section 71-5-359, the district is required to maintain a minimum of 2% of the first \$6,000 of each employee that may become eligible for unemployment benefits in an unemployment revolving fund of the district. It appears that the district's required cash balance in the unemployment revolving fund at June 30, 2005, was insufficient by approximately \$19,236.

RECOMMENDATION

The district should comply with Section 71-5-359, and insure that the required cash balance is maintained in the unemployment revolving fund of the district.

SCHOOL DISTRICT'S RESPONSE

The district has transferred funds to the unemployment revolving fund to correct this finding as of May 31, 2006.

2. FINDING

In accords with Section 37-61-9 (4), the district is required to limit it spending budget for administrative salaries and benefits to an amount equal to 4% of total budgeted expenditures plus \$150,000. It appears that the district exceeded the limitation on administrative salaries and benefits by \$9,096.

RECOMMENDATION

The district should comply with Section 37-61-9 (4), and insure that the required limitation on administrative salaries and benefits is adhered to by the district.

SCHOOL DISTRICT'S RESPONSE

The district will implement procedures to correct this error.

3. FINDING

In accords with Section 31-7-13, the district is required to follow state statutes in selecting vendors of the district. For two (2) transactions selected for testing, the district did not provide evidence supporting the district compliance with the guidelines of the state purchasing law.

RECOMMENDATION

The district should comply with Section 31-7-13 when selecting vendors of the district.

SCHOOL DISTRICT'S RESPONSE

The district erroneously failed to obtain two written quotes for items purchased. The district will implement additional procedures to insure compliance with state purchasing laws.

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

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



Day, CPA
May 11, 2006

CANTON PUBLIC SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CANTON PUBLIC SCHOOL DISTRICT

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CANTON PUBLIC SCHOOL DISTRICT
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2005

Section 1: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

- | | | |
|-----|---|-------------|
| 4. | Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 5. | Internal control over major programs: | |
| | a. Material weakness identified? | Yes |
| | b. Reportable condition identified that is not considered to be material weaknesses? | Yes |
| 6. | Any audit findings reported as required by Section ____510(a) of Circular A-133? | Yes |
| 7. | Federal programs identified as major programs: | |
| | a. Program name: Child nutrition cluster | |
| | CFDA#: 10.553 | |
| | CFDA#: 10.555 | |
| | CFDA#: 10.559 | |
| | b. Program name: Title I grants to local educational agencies | |
| | CFDA#: 84.010 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | No |
| 10. | Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____315(b) of OMB Circular A-133? | Yes |

CANTON PUBLIC SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

Section 2: Financial Statement Findings

Material Weaknesses

2005-1 Finding

The district acquired equipment during the fiscal year ended June 30, 2005 that was 10% funded by the district and 90% funded by the federal government under its E-rate Program. In recording these transactions, the expenditures and revenues of the district were significantly understated. Audit adjustments were made to correct these misstatements.

Recommendation

The district should implement procedures to insure that total cost of equipment is accounted for in a manner consistent with generally accepted accounting principles and other authoritative guidelines.

2005-2 Finding

The district incorrectly reduced cash with fiscal agent and increased due from local sources as a result of a request being made to Trustmark National Bank, the fiscal agent for the district, to reimburse the district regular cash account with funds maintained in the district cash with fiscal agent accounts to cover expenditures paid to vendors by the district. Thereby creating an understatement of the cash with fiscal agent account and an overstatement of the due from local sources account. An audit adjustment was made to correct these misstatements.

Recommendation

The district should implement procedures to insure that cash accounts and receivable accounts are accounted for in a manner consistent with generally accepted accounting principles and other authoritative guidelines.

Reportable Conditions not considered to be material weaknesses

2005-3 Finding

Per my review of the Application for Retirement Benefits Employment and Wage Certification (PERS Form 9A) as submitted to the Public Employees' Retirement System of Mississippi (PERS) for retiring employees of the district, it appears that the district reported the employees unused leave days as uncompensated day to PERS, and also compensated the employees for the same days in their final pay checks paid by the district.

Recommendation

The district should implement procedures to insure the proper reporting of retirement information to PERS for each participating employee. In addition, the district should review previously filed reports and submit corrections to these reports, as required, to PERS.

CANTON PUBLIC SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

2005-4 Finding

I noted the following exceptions during my examination of twenty-five (25) non-payroll expenditures transactions selected for test purposes:

- 6 invoices were improperly coded
- 1 invoice was not properly cancelled

2005-5 Finding

I noted the following exceptions during my examination of capital assets:

- a. A school bus, asset code number 3628, did not contain a district identifying asset/bar code.
- b. A John Deere Lawn Tractor, asset code number 3699, did not contain a district identifying asset/bar code.
- c. A Scantron Reader, asset code number 3701, did not contain a serial number or model number in the Capital Asset Subsidiary Ledger.
- d. A Milestone Security System, asset code number 3700, did not contain a serial number or model number in the Capital Asset Subsidiary Ledger.

Recommendation

The district should insure that capital asset items are properly identified by the district.

Section 3: Federal Award Findings and Questioned Costs

Material weakness

2005-6 Finding

Compliance Requirements: Program Income

Program: Child Nutrition Cluster – CFDA# 10.553, 10.555, 10.559
U. S. Department of Education;
Mississippi Department of Education

The district's food service program provided prepared meals to the Madison County Human Resource Agency and St. Elizabeth. Receivables owed to the district as of June 30, 2005, by these organizations, totaling \$29,576.50, had not been received as of January 25, 2006, the day of audit testing. However, as of May 11, the date of this audit report, only the receivable from St. Elizabeth, \$1,612.50, had been received by the district. The balance of \$27,964.00 was still outstanding.

Questioned Cost: \$27,964.00

Recommendation

The district should implement procedures to insure that all program income of the food service program is collected in a timely manner.

CANTON PUBLIC SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

2005-7 Finding

Compliance Requirements: Allowable Costs/Cost Principles

Program: Title I Grants to Local Educational Agencies – CFDA# 84.010
U. S. Department of Education;
Mississippi Department of Education

The district did not provide proper documentation to support a payment from the Title I program to the District Maintenance Fund in the amount of \$30,000 for direct cost of transportation of students for the summer school program.

Recommendation

For direct expenditures of the Title I program, the district should acquire, and maintain for audit, proper supporting invoices, payroll records and other appropriate supporting documentation to support and establish the allowability of the expenditure.

Questioned Cost: \$30,000.00

Reportable Condition not considered to be a material weakness

2005-8 Finding

Compliance Requirements: Program Income

Program: Child Nutrition Cluster – CFDA# 10.553, 10.555, 10.559
U. S. Department of Education;
Mississippi Department of Education

The district did not properly account for, record and/or maintained record for meals sold during fiscal year ended June 30, 2005. In several cases, the amount of money collected per the Summary of Cash Receipts and Deposits report was more than the deposit per the bank statement.

Recommendation

As stated in the prior year, the district should implement procedures to insure that all sales are properly accounted for and such records should be properly maintained.

CANTON PUBLIC SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

2005-9 Finding

Compliance Requirements: Procurement and Suspension and Debarment

Program: Title I Grants to Local Educational Agencies – CFDA# 84.010
U. S. Department of Education;
Mississippi Department of Education

In accords with state purchasing laws, the district is required to follow state statutes in selecting vendors of the district. For one (1) transaction selected for testing of the Title I program, the district did not provide evidence supporting the district compliance with the guidelines of the state purchasing law.

Recommendation

The district should insure compliance with state and federal procurement laws and regulations.

CANTON PUBLIC SCHOOL DISTRICT

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CANTON PUBLIC SCHOOL DISTRICT

AUDITEE'S CORRECTIVE ACTION PLAN
AND
SUMMARY OF PRIOR AUDIT FINDINGS

CANTON PUBLIC SCHOOL DISTRICT

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CANTON PUBLIC SCHOOL DISTRICT

403 East Lincoln Street, Canton, MS 39046

Reuben B. Myers, Superintendent

AUDITEE'S CORRECTIVE ACTION PLAN

As required by Section __,315(b) of OMB Circular A-133, the Canton Public 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:

<u>Finding</u>	<u>Corrective Action Plan Details</u>
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2005-1

a. **Name of Contact Person Responsible for Corrective Action:**

Name: Clara Gray
Title: Business Administrator
Phone #: (601) 859-1152

b. **Corrective Action Planned:**

This requirement had not been brought to the district's attention in the past audits, but the district has taken immediate steps to insure that all e-rate equipment purchases are recorded at 100% of their value. Also, e-rate revenue will be properly recorded in the district's financial statements.

c. **Anticipated Completion Date: June 30, 2006**

2005-2

a. **Name of Contact Person Responsible for Corrective Action**

Name: Clara Gray
Title: Business Administrator
Phone #: (601) 859-1152

b. **Corrective Action Planned:**

This misstatement was due to an accounting error in recording request for funds held on account by the district's financial institution. The district will make every effort to insure that assets are properly reflected in the financial records.

c. **Anticipated Completion Date: June 30, 2006**

CANTON PUBLIC SCHOOL DISTRICT

403 East Lincoln Street, Canton, MS 39046

Reuben B. Myers, Superintendent

Finding

Corrective Action Plan Details

2005-3

a. Name of Contact Person Responsible for Corrective Action:

**Name: Clara Gray
Title: Business Administrator
Phone #: (601) 859-1152**

b. Corrective Action Planned:

The district will implement additional procedures to ensure that a revised unused leave report is submitted to the retirement system after an employee has terminated employment.

c. Anticipated Completion Date: June 30, 2006

Finding

Corrective Action Plan Details

2005-4

a. Name of Contact Person Responsible for Corrective Action:

**Name: Clara Gray
Title: Business Administrator
Phone #: (601) 859-1152**

b. Corrective Action Planned:

The district will implement policies and procedures to insure that invoices are properly coded and cancelled.

c. Anticipated Completion Date: June 30, 2006

CANTON PUBLIC SCHOOL DISTRICT

403 East Lincoln Street, Canton, MS 39046

Reuben B. Myers, Superintendent

Finding Corrective Action Plan Details

2005-5 a. Name of Contact Person Responsible for Corrective Action:

**Name: Clara Gray
Title: Business Administrator
Phone #: (601) 859-1152**

b. Corrective Action Planned:

The district will implement procedures to insure that capital assets are properly tagged and recorded in the accounting records.

c. Anticipated Completion Date: June 30, 2006

Finding Corrective Action Plan Details

2005-6 a. Name of Contact Person Responsible for Corrective Action:

**Name: Reuben Myers
Title: Superintendent
Phone #: (601) 859-4110**

b. Corrective Action Planned:

Effective July 31, 2005, the district will no longer enter into a contract with Madison County Human Resource Agency. The district is pursuing the collection of this unpaid balance.

c. Anticipated Completion Date: June 30, 2006

CANTON PUBLIC SCHOOL DISTRICT

403 East Lincoln Street, Canton, MS 39046

Reuben B. Myers, Superintendent

Finding Corrective Action Plan Details

2005-7 a. Name of Contact Person Responsible for Corrective Action:

**Name: Mary Jones
Title: Director of Federal Programs
Phone #: (601) 859-2359**

b. Corrective Action Planned:

The district utilized a standard daily rate which was inclusive of salaries, benefits, gasoline, maintenance and mileage. This rate was less than the actual cost of transportation for this program. The district will implement additional procedures to insure that all direct program expenditures are properly documented.

c. Anticipated Completion Date: June 30, 2006

Finding Corrective Action Plan Details

2005-8 a. Name of Contact Person Responsible for Corrective Action:

**Name: Bettye Hart
Title: Director of Child Nutrition
Phone #: (601) 859-6189**

b. Corrective Action Planned:

The district erroneously provided the wrong reports. The district will implement additional procedures to insure that all program revenues are properly accounted for and recorded.

c. Anticipated Completion Date: June 30, 2006

CANTON PUBLIC SCHOOL DISTRICT

403 East Lincoln Street, Canton, MS 39046

Reuben B. Myers, Superintendent

Finding

Corrective Action Plan Details

2005-9

a. Name of Contact Person Responsible for Corrective Action:

Name: Mary Jones

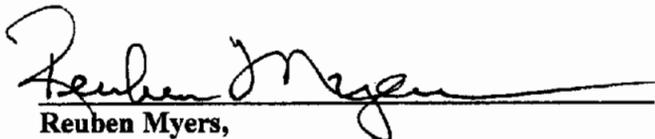
Title: Director of Federal Programs

Phone #: (601) 859-2359

b. Corrective Action Planned:

The Title I office combined one order received by each individual school site and erroneously failed to obtain two written quotes. This error was subsequently discovered and documented in the financial records. Additional procedures will be implemented to insure compliance with purchasing laws.

c. Anticipated Completion Date: June 30, 2006



**Reuben Myers,
Superintendent of Schools**

CANTON PUBLIC SCHOOL DISTRICT

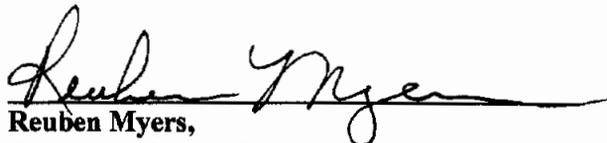
403 East Lincoln Street, Canton, MS 39046

Reuben B. Myers, Superintendent

AUDITEE'S SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

As required by Section _ .315 of OMB Circular A-133, the Canton Public School District has prepared and hereby submits the following summary schedule of prior audit findings as of June 30, 2005:

<u>Finding</u>	<u>Status</u>
2004-6	The district has implemented policies and procedures to insure that all program income is properly billed and every effort is made to collect in a timely manner.
2004-7	The district has updated the food service software for the proper recording of food sales. Additional procedures have been implemented to insure fiscal years are properly closed to prevent the overriding of reconciled reports.


Reuben Myers,
Superintendent of Schools