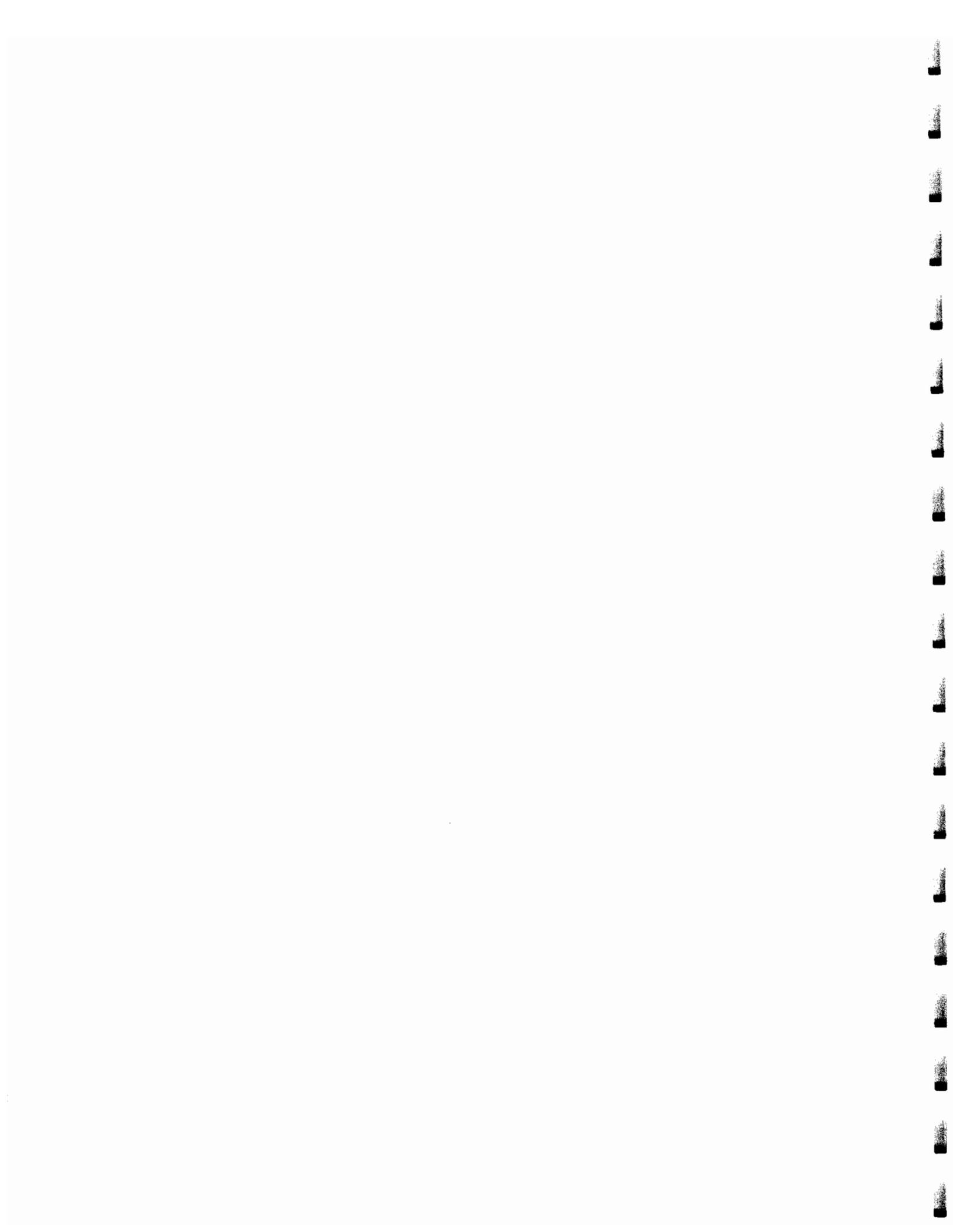




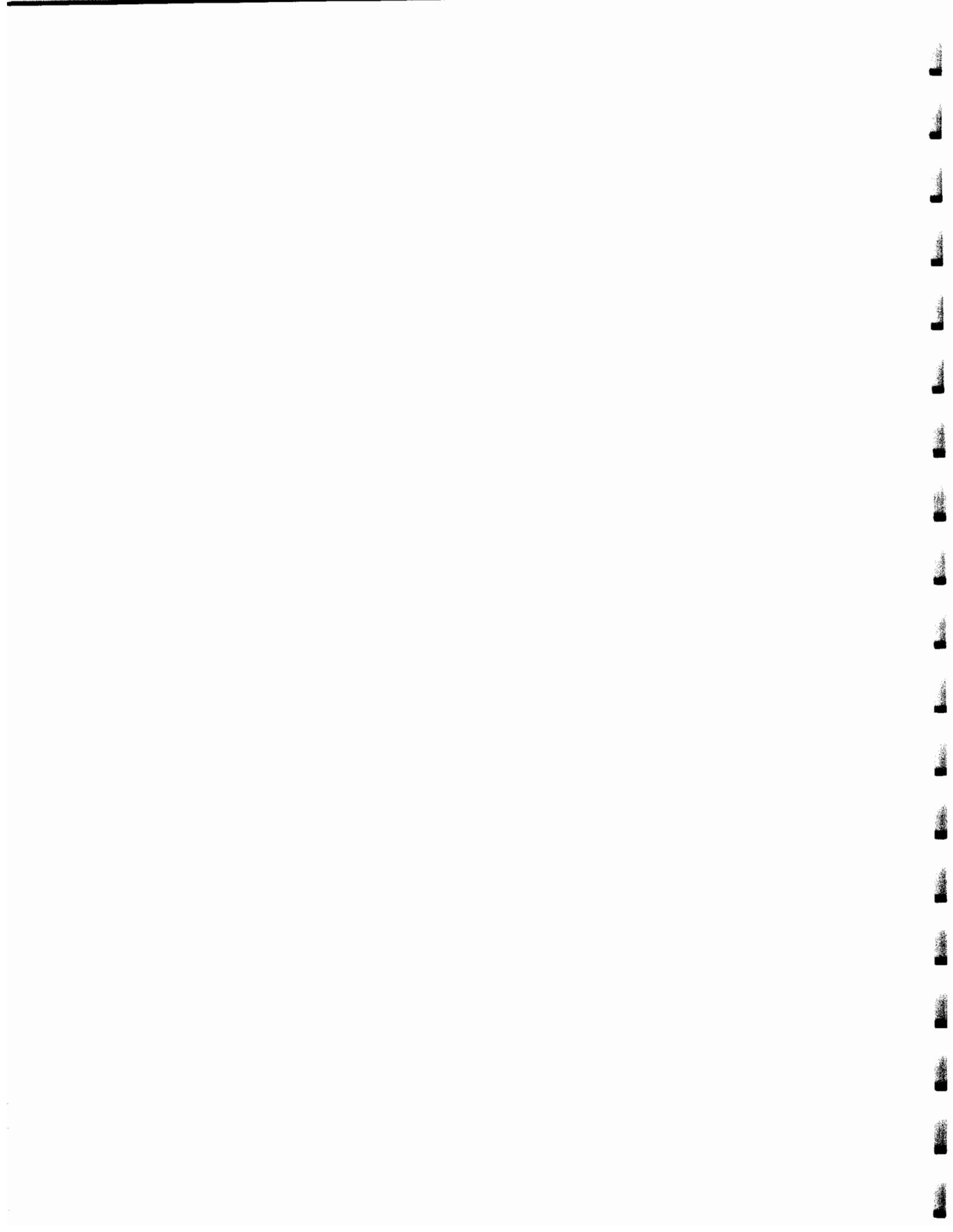
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DESOTO COUNTY SCHOOL DISTRICT
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005



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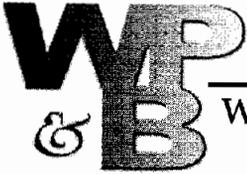
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DESOTO COUNTY SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

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WILLIAMS • PITTS • BEARD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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

Superintendent and School Board
DeSoto County School District

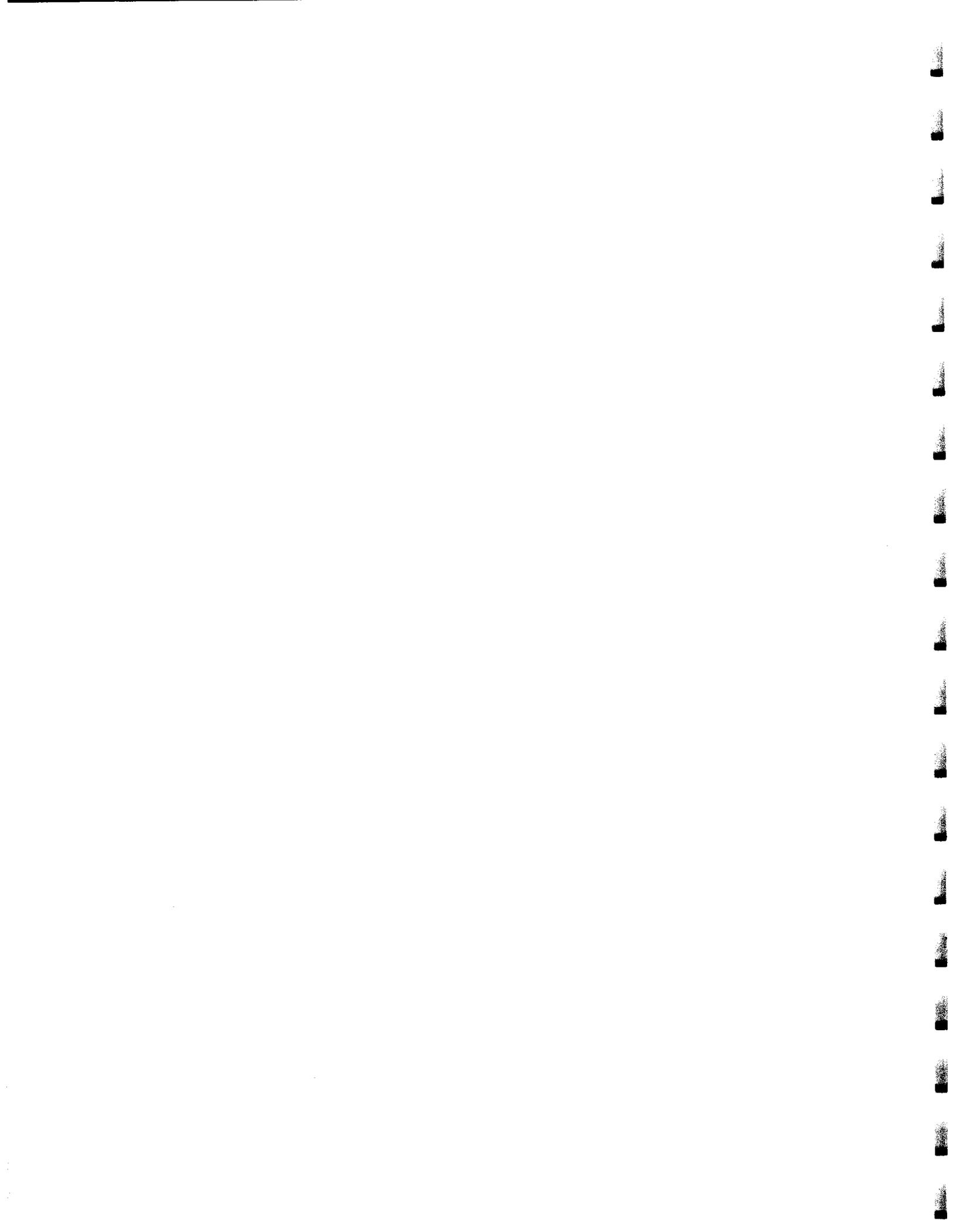
We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the DeSoto County School District as of and for the year ended June 30, 2005, which collectively comprise the DeSoto County School District's basic financial statements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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the DeSoto County 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*, we have also issued our report dated January 17, 2006, on our consideration of the DeSoto County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report considering the results of our audit.

The Management's Discussion and Analysis on pages 5 through 12 and the Budgetary Comparison Schedule



and corresponding notes on pages 37 through 38 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

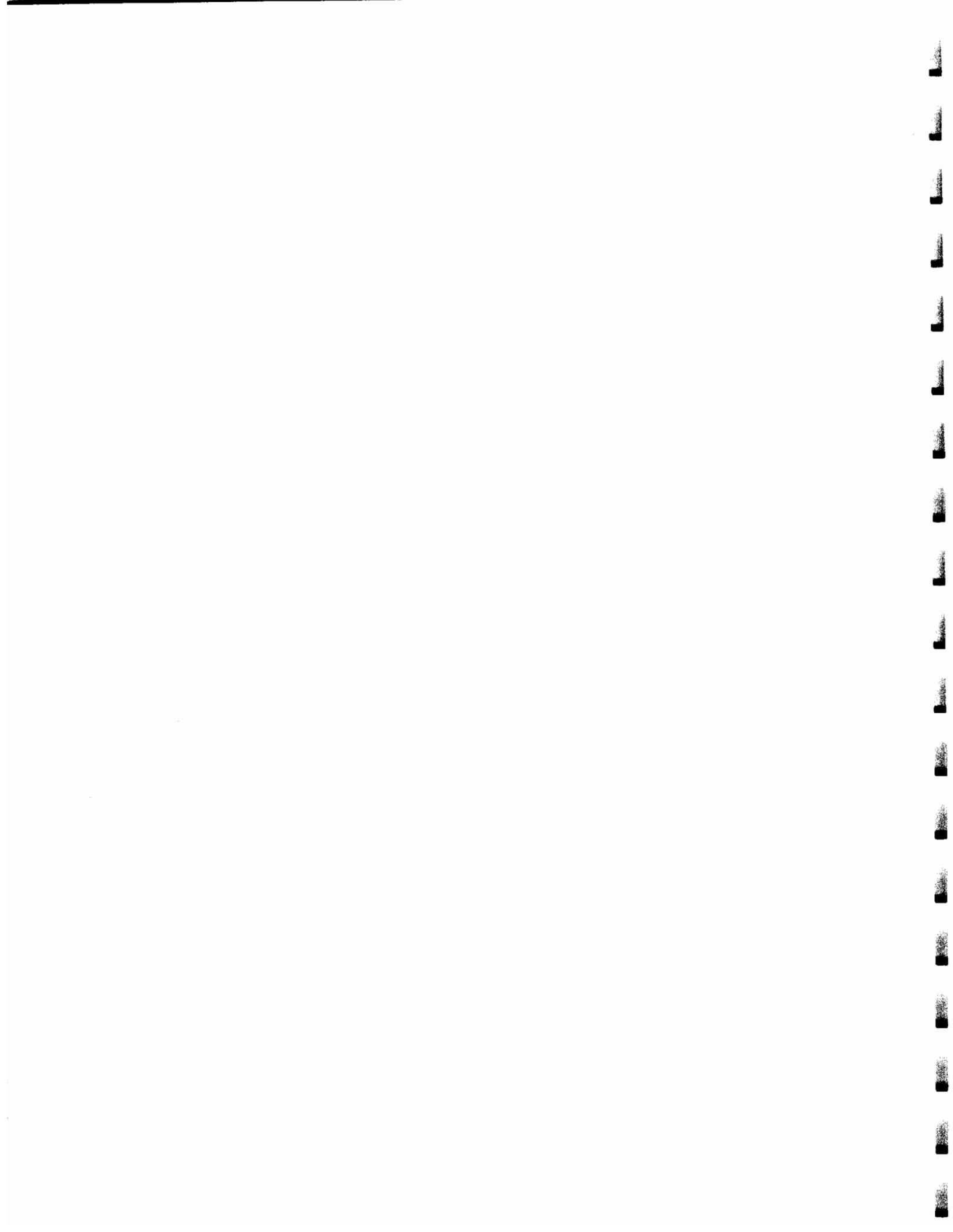
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the DeSoto County School District's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office 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 the purposes of additional analysis. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC

Certified Public Accountants

January 17, 2006



DESOTO COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

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DESOTO COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For The Year Ended June 30, 2005

The discussion and analysis of DeSoto County School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the School District's financial performance. Information contained in this 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 a new 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 \$16,730,289, which represents a 14% increase from fiscal year 2004.
- General revenues account for \$137,784,394 in revenue, or 86% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$21,698,385 or 14% of total revenues.
- The District had \$142,752,490 in expenses; only \$21,698,385 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$137,784,394 were more than adequate to provide for the balance of these expenses.
- Among major funds, the General Fund had \$129,528,540 in revenues and \$121,706,097 in expenditures. The General Fund's fund balance decreased (\$3,488,453) from the prior year. The decrease in fund balance was the result of several factors. The state legislature approved an 8% teacher pay raise and an increase in the cost of health insurance, yet the state funds (Mississippi Adequate Education Program Funds - MAEP) were cut. Also, the state did not fund any of the 1600 new students the district gained in 2005. Finally, the district transferred \$5,000,000 out of the General Fund to a Capital Projects Fund for future construction uses.
- Capital assets, net of accumulated depreciation, increased by \$43,731,387. The increase in capital assets is mainly due to the completion of Pleasant Hill Elementary; classroom additions at Hernando Middle, Horn Lake Middle, and Southaven Middle; toilet renovations at Southaven High and Hope Sullivan Elementary; and various athletic facilities and playground projects. Also, over \$38,000,000 in construction in progress was added for new band halls at Southaven High, Hernando High, and Horn Lake High; a new elementary school and middle/high school in south DeSoto County; a new Horn Lake High School; a new middle/high school in East Desoto County; a new elementary school in Hernando; a new elementary and middle/high school in West DeSoto County; new physical education buildings at seven elementary schools; road improvements at the new construction sites; and major renovations at all existing schools.
- Long-term debt increased by \$123,490,000. This increase is a result of the issuance of \$115,000,000 in General Obligation Bonds as well as \$20,120,000 in Certificates of Participation less regularly scheduled debt service payments.

**DESOTO COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For The Year Ended June 30, 2005**

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

Because the focus of governmental funds is narrower 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. These reconciliations are on pages 17 and 19, respectively.

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

DESOTO COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For The Year Ended June 30, 2005

District include instruction, support services, non-instructional, sixteenth section and interest on long-term liabilities.

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 on pages 16 – 19 of this report.

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21 – 35 of this report.

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund. This required supplementary information can be found on page 37 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on page 40 of 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 \$134,436,718 as of June 30, 2005.

By far the largest portion of the District's net assets (95%) reflects its unrestricted fund balance which is primarily cash and investments which will be used in the next two fiscal years to fund the building of seven new schools.

The District's financial position is a product of several financial transactions including the net result of activities, the 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 and 2004. Current assets increased by \$103,832,743 primarily due to an increase in cash and investments from bond proceeds and certificates of participation issued in 2005.

DESOTO COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For The Year Ended June 30, 2005

	<u>2005</u>	<u>2004</u>
Assets:		
Current assets	\$ 154,079,915	\$ 50,247,172
Non-current assets	903,393	237,696
Capital assets, net	159,286,746	115,555,359
Total assets	<u>314,270,054</u>	<u>166,040,227</u>
Liabilities:		
Current liabilities	23,798,564	11,649,533
Long-term liabilities	156,034,772	36,684,265
Total liabilities	<u>179,833,336</u>	<u>48,333,798</u>
Net assets:		
Invested in capital assets, net of related debt	(2,788,254)	77,070,760
Restricted	9,391,069	11,265,898
Unrestricted	127,833,903	29,369,771
Total net assets	<u>\$ 134,436,718</u>	<u>\$ 117,706,429</u>

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

- The issuance of \$115,000,000 of general obligation bonds and \$20,120,000 in certificates of participation. Also, the principal retirement of \$11,630,000 in long term debt.
- The completion of Pleasant Hill Elementary in the amount of \$6,918,740 and the completion of additions to Hernando Middle, Horn Lake Middle, & Southaven Middle in the amount of \$2,158,076. Also, over \$38,000,000 in construction in progress was added for new band halls at Southaven High, Hernando High, and Horn Lake High; a new elementary school and middle/high school in south DeSoto County; a new Horn Lake High School; a new middle/high school in East Desoto County; a new elementary school in Hernando; a new elementary and middle/high school in West DeSoto County; new physical education buildings at seven elementary schools; road improvements at the new construction sites; and major renovations at all existing schools.

Changes in net assets. The District's total revenues for the fiscal year ended June 20, 2005 were \$159,423,115. The total cost of all programs and services was \$ 142,752,490. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2005 and 2004.

	<u>2005</u>	<u>2004</u>
Revenues:		
Program revenues	\$ 21,698,385	\$ 19,746,199
General revenues	137,784,394	118,682,543
Total revenues	<u>\$ 159,482,779</u>	<u>\$ 138,428,742</u>
Expenses:		
Instruction	\$ 80,956,836	\$ 69,452,033
Support services	51,143,406	42,041,858
Non-instructional	7,145,546	6,215,633
Interest on long-term liabilities	3,506,702	1,732,472
Total expenses	<u>142,752,490</u>	<u>119,441,996</u>
Increase in net assets	<u>\$ 16,730,289</u>	<u>\$ 18,986,746</u>

DESOTO COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For The Year Ended June 30, 2005

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

	2005		2004	
	Total	Net (Expense)	Total	Net (Expense)
	Expenses	Revenue	Expenses	Revenue
Instruction	\$ 80,956,836	\$ (66,507,891)	\$ 69,452,033	\$ (55,232,550)
Support services	51,143,406	(51,044,355)	42,041,858	(42,041,858)
Non-instructional	7,145,546	4,843	6,215,633	(688,917)
Interest on long-term liabilities	3,506,702	(3,506,702)	1,732,472	(1,732,472)
Total expenses	<u>\$ 142,752,490</u>	<u>\$ (121,054,105)</u>	<u>\$ 119,441,996</u>	<u>\$ (99,695,797)</u>

- In 2005, net cost of governmental activities (\$121,054,105), was financed by general revenue, which is made up primarily of property taxes of \$47,032,269 and state revenue of \$86,731,836. In 2004, property taxes were \$38,587,945 and state revenue \$77,545,556. Investment earnings accounted for \$1,924,956 of funding in 2005 and \$1,206,282 in 2004.

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 \$ 138,860,968, an increase of \$97,301,219 due primarily to the issuance of approximately \$20,000,000 in Certificates of Participation and \$115,000,000 in General Obligation Bonds. \$138,821,501 or 99.97% of the fund balance constitutes reserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$39,467 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 (\$3,488,453), a result of decreases in state funds through MAEP as well as a \$5,000,000 transfer from the General Fund to the Capitals Projects Fund for future construction needs. The net change in fund balance of Other Governmental Funds showed an increase of \$1,676,393 due to several factors. A large portion of the increase is due to the transfer of \$5,000,000 from the General Fund to the Capital Projects Fund as described earlier. The 2002 General Obligation Bond Debt Service Fund in the amount of \$4,408,228 was a major fund in 2004 but was included in the Other Governmental Funds in 2005. Also, the balance includes \$940,921 in the 2004 General Obligation Bond Series B Fund as well as additional ad valorem revenue for the 2004 General Obligation Bonds Series A and B Debt Retirement Funds.

BUDGETARY HIGHLIGHTS

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

DESOTO COUNTY SCHOOL DISTRICT

Management's Discussion and Analysis

For The Year Ended June 30, 2005

- Budget amendments were made to increase expenditures for additional personnel and support services necessary for the additional 1600 children enrolled in FY05. Amendments were also made for new funds and carry-over funds in Federal Programs as well as grants awarded during the year.
- Budgeted amounts for facilities acquisition and construction expenditures were increased with the issuance of three general obligation bond issues and certificates of participation.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2005, the District's total capital assets were \$159,286,746, including school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$43,731,387 from the previous year. The increase in capital assets is mainly due to the completion of one new elementary school, several classroom additions, toilet renovations, athletic field improvements, and playground projects. They are Pleasant Hill Elementary; classroom additions at Hernando Middle, Horn Lake Middle, and Southaven Middle; toilet renovations at Southaven High and Hope Sullivan Elementary; athletic field improvements and playground projects at various schools. Accumulated depreciation as of June 30, 2005 was \$32,678,690 and total depreciation expense for the year was \$4,086,376. Additional information on the District's capital assets can be found in Note 4 of this report.

Debt Administration. At June 30, 2005, the District had \$162,978,894 in general obligation bonds and other long-term debt outstanding, of which \$7,585,000 is due within one year. The Limited Tax Notes were financed with a twenty (20) year debt schedule. The District still has 2.40 mills available to borrow under the Limited Tax Note statute. The 2002 General Obligation bonds were refinanced with a ten (10) year debt schedule. The 2004 General Obligation bond Series A was financed with a twelve (12) year debt schedule. Series B was financed with a ten (10) year debt schedule. The 2005 General Obligation bonds were financed with a fourteen (14) year debt schedule. Ad valorem requests to DeSoto County are adequate to cover the annual debt service for FY2005. The 2004 Certificates of Participation were financed with a fifteen (15) year debt schedule. The debt service payments are financed through a combination of District Maintenance funds and the EEF Buildings and Buses fund which has been pledged to retire this debt.

The District maintains an AAA bond rating. Additional information of the District's long-term debt can be found in Note 5 of this report.

CURRENT ISSUES

The DeSoto County School District is financially stable and has accomplished this by committing itself to financial excellence for many years. DeSoto County has been experiencing phenomenal growth over the past several years, and the trend is for even greater growth in the future. The District has gained at least 1200 children per year for the past five years, and projects a gain of 1800 children for FY2006. Even with the growth, the District has been able to maintain a healthy fund balance with minimal increases in millage.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the DeSoto County School District, 5 E. South St, Hernando, MS 38632 .

DESOTO COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS

Statement of Net Assets
June 30, 2005

	Primary Government Government Activities
ASSETS	
Cash and cash equivalents (Note 2)	\$ 132,821,919
Investments	17,439,648
Due from other governments	3,738,063
Accrued interest receivable	40,818
Inventories and prepaid items	39,467
Bond issue cost	903,393
Capital assets, net (Note 4)	159,286,746
Total assets	<u>\$ 314,270,054</u>
LIABILITIES	
Accounts payable and accrued liabilities	\$ 10,626,331
Due to other governments	4,534,476
Deferred revenue	58,140
Interest payable on long-term debt	994,617
Long-term liabilities (due within one year) (Note 5)	
Capital - related liabilities	7,585,000
Long-term liabilities (due beyond one year) (Note 5)	
Capital - related liabilities	154,490,000
Bond premium	1,681,271
Bond discount	(136,145)
Loss on advanced refunding bond	(904,248)
Non-capital liabilities	903,894
Total liabilities	<u>\$ 179,833,336</u>
NET ASSETS	
Invested in capital assets, net of related debt	\$ (2,788,254)
Restricted net assets	
Expendable:	
School based activities	3,663,923
Debt service	5,307,201
Unemployment benefits	419,945
Unrestricted	127,833,903
Total Net Assets	<u>\$ 134,436,718</u>

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

Statement of Activities
For the year ended June 30, 2005

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Primary Governmental Activities
Governmental Activities:					
Instruction	\$ 80,956,836	5,176,727	9,272,218	-	(66,507,891)
Support services	51,143,406		99,051		(51,044,355)
Noninstructional services	7,145,546	3,046,718	3,361,186	742,485	4,843
Interest and other expenses on long-term debt	3,506,702				-
					(3,506,702)
Total governmental activities	\$ 142,752,490	8,223,445	12,732,455	742,485	(121,054,105)
General Revenues:					
Taxes:					
					35,167,144
					11,865,125
Unrestricted grants and contributions:					
					86,731,836
					352,022
					1,924,956
					1,743,311
					137,784,394
Changes in Net Assets					
					16,730,289
Beginning net assets					
					117,706,429
Prior period adjustments (Note 9)					
					117,706,429
Net Assets - Restated					
					\$ 134,436,718

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

Balance Sheet – Governmental Funds
June 30, 2005

	Major Funds					Total Governmental Funds
	General Fund	2004 G O Bond Series A Construction Fund	2004 Certification of Participation Fund	2005 G O Bond Series C Construction Fund	Other Governmental Funds	
ASSETS						
Cash and cash equivalents (Note 2)	\$ 15,954,657	\$ 13,378,739	\$ 14,208,666	\$ 76,130,969	\$ 13,148,888	\$ 132,821,919
Investments		6,476,752	5,956,875		5,006,021	17,439,648
Due from other governments	1,628,082				2,109,981	3,738,063
Accrued Interest receivable			24,375		16,443	40,818
Due from other funds (Note 3)	16,486,111	4,707,026	88,800		2,642,979	23,924,916
Inventories and prepaid items					39,467	39,467
Total assets	\$ 34,068,850	\$ 24,562,517	\$ 20,278,716	\$ 76,130,969	\$ 22,963,779	\$ 178,004,831
LIABILITIES & FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities	\$ 1,737,932	\$ 884,471	\$ 1,865,245	\$ 5,637,651	\$ 501,032	\$ 10,626,331
Due to other funds (Note 3)	5,671,726	7,663,235	9,605,335	122,986	5,396,110	28,459,392
Deferred revenue					58,140	58,140
Total liabilities	7,409,658	8,547,706	11,470,580	5,760,637	5,955,282	39,143,863
Fund balances:						
Reserved for:						
Inventory					39,467	39,467
Unreserved, undesignated, reported in:						
General fund	26,659,192				-	26,659,192
Special revenue funds					4,044,401	4,044,401
Capital project funds		16,014,811	8,808,136	70,370,332	6,885,326	102,078,605
Debt service funds					6,039,303	6,039,303
Total fund balances	26,659,192	16,014,811	8,808,136	70,370,332	17,008,497	138,860,968
Total liabilities & fund balances	\$ 34,068,850	\$ 24,562,517	\$ 20,278,716	\$ 76,130,969	\$ 22,963,779	\$ 178,004,831

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

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2005

	<u>Amount</u>
Total Fund Balances - Government Funds	\$ 138,860,968
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets are used in governmental activities and are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$32,678,690. (Note 4)	159,286,746
2. Other long-term assets (bond issue costs) are not available to pay for current expenditures and therefore are deferred in the funds. (Exh A)	903,393
3. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (Note 5)	(162,978,894)
4. Interest payable on long-term liabilities is not reported on the governmental fund balance sheet. (Exh A)	(994,617)
5. Bond premiums, bond discounts and loss on redemption of bonds are reported as other financing sources and uses in the governmental funds but as a liability and contra-liability on the statement of net assets. (Exh A)	<u>(640,878)</u>
Total Net Assets	<u>\$ 134,436,718</u>

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

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
For the year ended June 30, 2005

	Major Funds					Total Governmental Funds
	2004 G O	2004	2004 G O	Other Governmental Funds	Total Governmental Funds	
	General Fund	Bond Series A Construction Fund	Certification of Participation Fund			
REVENUE						
Local sources	\$ 42,299,578	\$ 445,432	\$ 199,862	\$ 97,330	\$ 15,910,222	\$ 58,952,424
State sources	86,874,499				2,286,398	89,160,897
Federal sources	354,463				11,043,438	11,397,901
Total revenues	<u>129,528,540</u>	<u>445,432</u>	<u>199,862</u>	<u>97,330</u>	<u>29,240,058</u>	<u>159,511,222</u>
EXPENDITURES						
Instruction	73,546,751				7,420,126	80,966,877
Support services	45,706,512	725,036	53,179	74,140	5,871,577	52,430,444
Noninstructional services	1,155,158	174,908	204,353		5,674,951	7,209,370
Facilities acquisition and construction	1,297,676	18,885,338	11,027,877	5,229,449	5,802,717	42,243,057
Debt Service:						
Principal					11,630,000	11,630,000
Interest					2,896,040	2,896,040
Other		260,376	324,198	334,062	11,000	929,636
Total expenditures	<u>121,706,097</u>	<u>20,045,658</u>	<u>11,609,607</u>	<u>5,637,651</u>	<u>39,306,411</u>	<u>198,305,424</u>
Excess (deficiency) of revenues over expenditures	<u>7,822,443</u>	<u>(19,600,226)</u>	<u>(11,409,745)</u>	<u>(5,540,321)</u>	<u>(10,066,353)</u>	<u>(38,794,202)</u>
Proceeds of general obligation loans		36,080,000		75,000,000	3,920,000	115,000,000
Proceeds of certificates of participation			20,120,000			20,120,000
Premium on bonds issued			97,881	910,653	0	1,008,534
Insurance loss recoveries	21,975				4,459	26,434
Sale of transportation equipment	13,775					13,775
Sale of other property						0
Operating transfers in	1,607,216				13,440,601	15,047,817
Other financing sources	245,682				0	245,682
Operating transfers out	(12,955,723)	(295,393)			(1,796,701)	(15,047,817)
Other financing use	(243,821)				(60,002)	(303,823)
Total other financing sources and uses	<u>(11,310,896)</u>	<u>35,784,607</u>	<u>20,217,881</u>	<u>75,910,653</u>	<u>11,588,357</u>	<u>136,110,602</u>
Net change in fund balances	<u>(3,488,453)</u>	<u>16,184,381</u>	<u>8,808,136</u>	<u>70,370,332</u>	<u>1,522,004</u>	<u>97,316,400</u>
Fund balances:						
July 1, 2004, as previously reported	30,147,644	0		0	11,412,105	41,559,749
Prior period adj. & reclassifications (Note 9)		(169,570)			169,570	0
July 1, 2004, as restated	<u>30,147,644</u>	<u>(169,570)</u>		<u>0</u>	<u>11,581,675</u>	<u>41,559,749</u>
Increase (decrease) in reserve for inventory					(15,181)	(15,181)
June 30, 2005	<u>\$ 26,659,191</u>	<u>\$ 16,014,811</u>	<u>\$ 8,808,136</u>	<u>\$ 70,370,332</u>	<u>\$ 13,088,498</u>	<u>\$138,860,968</u>

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

**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities
For The Year Ended June 30, 2005**

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ 97,316,400
Amounts reported for governmental activities in the statement of activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchased amounted to \$47,890,506, the depreciation expense amounted to \$4,086,376, and book value of assets retired & adjustments was \$72,743. (Note 4)	43,731,387
2. Proceeds of long-term liabilities are reported as revenue in the governmental funds, but not in the statement of activities. (Note 5)	(135,120,000)
3. Issuance cost for long-term liabilities is reported as expenditures in the governmental funds, but is deferred and amortized in the statement of activities. Bond premiums, discounts, and loss on redemption of bonds are reported as other financing sources and uses in the governmental funds but are deferred and amortized in the statement of activities.	665,697 (894,486)
4. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of activities. (Note 5)	11,630,000
5. Decrease 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.	(15,181)
6. 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. Thus the change in net assets differs from the change in fund balances by a combination of the following items:	
Compensated absences	(126,021)
Accrued interest on bonds payable	<u>(457,507)</u>
Change in Net Assets of Governmental Activities	<u>\$ 16,730,289</u>

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

Statement of Fiduciary Net Assets
June 30, 2005

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents (Note 2)	\$ 2,214,736
Due from other governments	164,291
Due from other funds	<u>4,534,476</u>
Total Assets	<u><u>\$ 6,913,503</u></u>
LIABILITIES	
Accounts payable and accrued liabilities	\$ 6,756,178
Due to student clubs	<u>157,325</u>
Total Liabilities	<u><u>\$ 6,913,503</u></u>

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

DESOTO COUNTY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2005

1. Summary of Significant Accounting Policies.

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

A. Financial Reporting Entity.

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the school district's governing board.

As defined by accounting principles generally accepted in the United States of America, the school district is considered a "primary government." The school district is governed by a five member board which was elected by the citizens of each defined county district.

B. Basis of Presentation.

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

Government-wide Financial Statements:

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

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

Fund Financial Statements:

Fund financial statements of the 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

DESOTO COUNTY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2005

its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category.

C. Measurement Focus and Basis of Accounting.

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting. 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.

2004 G O Bond Series A Construction Fund – This is a capital projects fund which received the proceeds of the 2004 G O Bond and is paying for new school construction.

2004 Certification of Participation Fund – This is a capital projects fund which received the proceeds of the 2004 Certification of Participation funds. See note 12 for further explanation.

2005 G O Bond Series C Construction Fund - This is a capital projects fund which received the proceeds of the 2005 G O Bond and is paying for new school construction.

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.

DESOTO COUNTY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2005

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.

FUDICIARY 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.

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 deposits 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).

DESOTO COUNTY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2005

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

Prepaid items, such as prepaid insurance, are not reported for governmental fund types since the cost 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
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

DESOTO COUNTY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2005

programs accounted for in other funds in accordance with budgetary authorizations.

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

L. Equity Classifications.

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

M. Property Taxes.

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

N. Mississippi Adequate Education Program Revenues.

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

DESOTO COUNTY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2005

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. Cash and Cash Equivalents and Investments.

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 \$132,821,919 and \$2,214,736, respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and cash equivalents \$132,821,919. The bank balance was \$137,865,495.

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 policy for custodial credit risk. As of June 30, 2005, none of the district's bank balance of \$137,865,495 was exposed to custodial credit risk.

As of June 30, 2005, the district had the following investments. Except for the investments in U.S. Treasury securities, investments are in an internal investment pool.

<u>Investment Type</u>	<u>Maturities (in years)</u>	<u>Fair Value</u>	<u>Rating</u>
U. S. Treasury bills (Trustmark Natl Bank)	less than 1	6,476,752	AAA
U. S. Treasury notes (Trustmark Natl Bank)	less than 1	5,956,875	AAA
Mississippi Education Investment Pool	less than 1	5,006,021	A to AAA
		17,439,648	

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

Credit Risk. State law limits investments to those prescribed in Sections 17-105-33(e), Miss. Code Ann. (1972) The district

DESOTO COUNTY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2005

does not have a formal investment policy that would further limit its investments choices or one that addresses credit risk.

Custodial Credit Risk – Investments. Custodial credit risk is defined as the risk that, in the event of a financial institutions failure, the district will not be able to recover the value of its investments. The district does not have a formal investment policy that addresses custodial credit risk. As of June 30, 2005, none of the district’s investment balance of \$17,439,648 was exposed to custodial credit risk.

Concentration of Credit Risk. Disclosures of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U. S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2005, the district had all of its investments in U.S. government and external investment pools.

3. Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

	<u>Due From</u>	<u>Due To</u>
Major funds:		
General fund	\$ 16,486,111	\$ 5,671,726
Other major fund(s)		
2004 G O Bond Series A Const fund	4,707,026	7,663,235
2004 Certification of Participation fund	88,800	9,605,335
2005 G O Bond Series C Const fund		122,986
Other governmental funds	2,642,979	5,396,110
Fiduciary funds	<u>4,534,476</u>	<u>0</u>
Total Funds	<u>\$ 28,459,392</u>	<u>\$ 28,459,392</u>

“Due from’s” consist primarily of approximately \$12,500,000 due from capital projects to the general fund and \$7,200,000 due from capital projects to other capital projects for construction advances. Fiduciary funds “due from” is primarily for payment of the final payroll liabilities due under the teacher contracts to be paid in July 2005.

B. Transfers In/Out

	<u>Transfers In</u>	<u>Transfers Out</u>
Major funds:		
General fund	\$ 1,607,216	\$ 12,955,723
Other major fund(s)		
2004 G O Bond Series A Const fund		295,393
Other governmental Funds	<u>13,440,601</u>	<u>1,796,701</u>

DESOTO COUNTY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2005

Total Funds

\$ 15,047,817

\$15,047,817

Transfers out consists primarily of approximately \$2,100,000 transferred to vocational education, \$9,300,000 transferred to capital project funds, and \$1,000,000 transferred to debt service funds.

4. Capital Assets.

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

	Balance 7-1-2004	Additions	Retirements	Completed Construction	Adjustments	Balance 6-30-2005
Non-depreciable capital assets:						
Land	\$ 5,954,681	\$ 4,446,034	\$ -	\$ -	\$ -	\$ 10,400,715
Construction in progress	11,012,932	38,301,663		(10,409,097)		38,905,498
Total non-depreciable capital assets	<u>16,967,613</u>	<u>42,747,697</u>		<u>(10,409,097)</u>	<u>-</u>	<u>49,306,213</u>
Depreciable capital assets:						
Buildings	112,007,753			9,269,737		121,277,490
Building improvements	882,410			477,646		1,360,056
Improvements other than buildings	1,272,212			661,714		1,933,926
Mobile equipment	10,257,492	3,689,173	670,076			13,276,589
Furniture and equipment	3,455,193	1,453,636	97,667			4,811,162
Total depreciable capital assets	<u>127,875,060</u>	<u>5,142,809</u>	<u>767,743</u>	<u>10,409,097</u>	<u>-</u>	<u>142,659,223</u>
Less accumulated depreciation for:						
Buildings	21,027,002	2,371,925				23,398,927
Building improvements	54,365	54,402				108,767
Improvements other than buildings	349,469	77,357				426,826
Mobile equipment	5,627,422	1,042,808	603,068			6,067,162
Furniture and equipment	2,229,056	539,884	96,691		4,759	2,677,008
Total accumulated depreciation	<u>29,287,314</u>	<u>4,086,376</u>	<u>699,759</u>	<u>-</u>	<u>4,759</u>	<u>32,678,690</u>
Total depreciable capital assets, net	<u>98,587,746</u>	<u>1,056,433</u>	<u>67,984</u>	<u>10,409,097</u>	<u>(4,759)</u>	<u>109,980,533</u>
Governmental activities capital assets, net	<u>\$ 115,555,359</u>	<u>\$ 43,804,130</u>	<u>\$ 67,984</u>	<u>\$ -</u>	<u>\$ (4,759)</u>	<u>\$ 159,286,746</u>

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 54,470
Support services	3,836,169
Non-instructional	<u>195,737</u>
Total depreciation expense	<u>\$ 4,086,376</u>

DESOTO COUNTY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2005

The capital assets above include significant amounts of land, buildings, furniture and equipment which have been valued at estimated historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition.

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

<u>Project</u>	<u>Remaining Commitment</u>	<u>Required Future Financing</u>
Band Hall Additions	\$ 304,639	\$ 304,639
DeSoto South Elementary	561,562	561,562
DeSoto South Mid/High	12,894,410	12,894,410
New Horn Lake High	17,206,860	17,206,860
DeSoto East Mid/High	17,119,586	17,119,586
Hernando Elementary	6,603,182	6,603,182
DeSoto East Elementary	8,040,560	8,040,560
DeSoto West Middle School	7,838,362	7,838,362
Southaven High School	17,580,383	17,580,383
Hernando High Classroom Add	2,094,758	2,094,758
Olive Branch High Band Hall & Locker	346,504	346,504
HHS Field Improvements	1,916,155	1,916,155
Shadow Oaks Elem Additions	591,800	591,800
DeSoto South Road Improvements	350,212	350,212
SES, GES, HSE PE Buildings	995,785	995,785
OBE PE & CES Library	620,236	620,236
	<u>\$ 95,064,994</u>	<u>\$ 95,064,994</u>

5. Long-Term liabilities.

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

	<u>Balance 7/1/2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/2005</u>	<u>Amounts due within one year</u>
A. General Obligation Bonds	\$ 22,660,000	\$ 115,000,000	\$ 10,420,000	\$ 127,240,000	\$ 6,340,000
B. Certificates of Participation	-	20,120,000	660,000	19,460,000	670,000
C. Three mill-ten year notes Payable	15,925,000	-	550,000	15,375,000	575,000
D. Compensated Absences Payable	777,873	126,021	-	903,894	-
Total	<u>\$ 39,362,873</u>	<u>\$ 135,246,021</u>	<u>\$ 11,630,000</u>	<u>\$ 162,978,894</u>	<u>\$ 7,585,000</u>

The following is a summary of changes in bond premiums, discounts, loss on bond redemption, and bond costs:

DESOTO COUNTY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2005

	Balance 7/1/2004	Additions	Reductions	Balance 6/30/2005
Bond Premiums	\$ (751,112)	\$ (1,008,534)	\$ (78,374)	\$ (1,681,272)
Bond Discounts	-	140,840	4,695	136,145
Loss on Bond Redemption	1,004,720		100,472	904,248
Total	\$ 253,608	\$ (867,694)	\$ 26,793	\$ (640,879)

	Balance 7/1/2004	Additions	Reductions	Balance 6/30/2005
Bond Issuance Costs	\$ 237,696	\$ 711,000	\$ 45,303	\$ 903,393

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:

	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General Obligation Refunding Bonds Series 2002	2.00-5.00%	10/15/2002	2/1/2014	\$ 23,015,000	\$ 20,785,000
General Obligation Bond A Series 2004	3.50-5.00%	8/10/2004	5/1/2016	36,000,000	28,220,000
General Obligation Bond B Series 2004	3.25-4.00%	8/10/2004	5/1/2014	4,000,000	3,235,000
General Obligation Bond C Series 2005	3.50-5.00%	6/1/2005	5/1/2019	75,000,000	75,000,000
Total				\$ 138,015,000	\$ 127,240,000

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

Year Ending June 30	Principal	Interest	Total
2006	6,340,000	4,834,652	11,174,652
2007	7,710,000	4,884,093	12,594,093
2008	9,030,000	4,603,568	13,633,568
2009	7,665,000	4,249,668	11,914,668
2010	9,125,000	3,985,981	13,110,981
2011-2015	46,805,000	13,584,663	60,389,663
2016-2020	40,565,000	4,088,525	44,653,525
Total	127,240,000	40,231,150	167,471,150

DESOTO COUNTY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2005

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 equal to 11% of property assessments as of October 1, 2004. This debt will be retired from the General Obligation Bond Retirement Fund.

B. Certificates of Participation Payable

As more fully explained in Note 12, 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
2004 Certificate of Participation		12/1/2004	12/1/2019	\$ 20,120,000	\$ 19,460,000
Total				<u>\$ 20,120,000</u>	<u>\$ 19,460,000</u>

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

Year Ending June 30	Principal	Interest	Total
2,006	1,345,000	656,258	2,001,258
2,007	1,370,000	628,243	1,998,243
2,008	1,400,000	597,759	1,997,759
2,009	1,435,000	563,377	1,998,377
2,010	1,285,000	524,060	1,809,060
2011-2015	6,030,000	2,058,781	8,088,781
2016-2020	6,595,000	699,475	7,294,475
Total	<u>19,460,000</u>	<u>5,727,953</u>	<u>25,187,953</u>

This debt will be retired from the General Fund and the EEF Building and Bus Fund.

C. Three mill notes payable.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
2002 Limited Tax Notes	3.90-5.50%	7/01/2002	4/01/2022	\$16,450,000	\$15,375,000

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

DESOTO COUNTY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2005

Year Ending June 30	Principal	Interest	Total
2,006	575,000	715,088	1,290,088
2,007	600,000	683,463	1,283,463
2,008	650,000	650,463	1,300,463
2,009	675,000	614,713	1,289,713
2,010	725,000	584,338	1,309,338
2011-2015	4,175,000	2,450,188	6,625,188
2016-2020	5,400,000	1,432,000	6,832,000
2021-2022	2,575,000	193,750	2,768,750
Total	<u>15,375,000</u>	<u>7,324,000</u>	<u>22,699,000</u>

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

D. Compensated absences payable.

As more fully explained in Note 1(O), compensated absences payable is adjusted on an annual basis as required by Section 37-7-307(5), Mississippi Code Annotated (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.

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary and the DeSoto County 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 \$7,904,501, \$6,271,990, and \$5,923,227, respectively, which equaled the required contributions for each year.

7. Other Commitments.

Commitments under construction contracts are described in Note 4.

DESOTO COUNTY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2005

Commitments under re-roofing and renovation contracts amount to \$3,048,975.

Operating leases:

The school district has several operating leases for the following:

1. Xerox Pro 65 copier
2. Xerox Pro 75 copier
3. Xerox Pro 90 copier

Lease expenditures for the year ended June 30, 2005 amounted to \$49,976. Future lease payments for these leases are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2006	49,976
2007	49,976
2008	47,274
2009	<u>14,625</u>
Total	<u>\$ 161,851</u>

8. Deficit Fund Balance of Individual Funds.

<u>Fund</u>	<u>Fund Balance</u>
2005 Certification of Participation	(547,021)

The deficit fund balance is not in violation of state law. This deficit could have been eliminated with a transfer from the district maintenance fund (General Fund).

9. Prior Period Adjustments/Exhibits.

A summary of significant fund equity adjustments is as follows:

Exhibit B – Statement of Activities

<u>Explanation</u>	<u>Amount</u>
1. Limited tax note fund – (py payable) money made available in band hall additions	\$ 74,513
2. HLMS Classroom Additions (py payable) money made available in 2004 GO Bond fund	169,570
3. Band Hall Additions – money to finish project became available	(74,513)
4. 2004 GO Bond Series - money to finish project became available	<u>(169,570)</u>
	<u>\$ 0</u>

DESOTO COUNTY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2005

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

Major funds:	Explanation	Amount
1. 2004 GO Bond Series – See explanation for Exhibit B		(169,570)
2. Other governmental funds - See explanation for Exhibit B		169,570
		\$ 0

10. Litigation.

The DeSoto County School District is subject to various legal proceedings in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be a material adverse effect on the combined financial statements as a result of the cases presently in progress.

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 Bancorp South 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.

Participation in Self Insurance Trust

The school district established a self-insurance trust in July 2004 which pays the first \$50,000 of property and liability claims against the district. An initial \$150,000 was deposited into the trust account, and is evaluated each year for the proper amount to be replaced. An additional \$143,000 was transferred to the fund during fiscal year end 2005. The district had no year end liability because cash on deposit in the trust exceeded the unpaid claims in the amount of \$71,565, reported on the balance sheet in other governmental funds.

DESOTO COUNTY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2005

12. Trust Certificates.

A trust agreement dated December 1, 2004 was executed by and between the school district and Trustmark National Bank as trustees.

The trust agreement authorized the issuance of trust certificates in the principal amount of \$20,120,000. Approximately \$19,906,041 was used to provide financing for the construction and renovation of school buildings and related facilities and equipment (the "project"). The remainder of approximately \$213,959 was used to pay the cost of issuance.

The project is leased to the school district in accordance with the provisions of the Emergency School Leasing Authority Act as described in Section 37-7-351, *et seq.*, Miss Code Ann. (1972). The lease represents a capital lease under which ownership of the project will transfer to the school district upon complete retirement of the trust certificates. The school district is obligated to make lease payments to the trustee in an amount equal to the debt service requirements for the trust certificates. The lease rental payments by the school district are used by the trustee to pay the principal and interest payments due on the trust certificates.

Using the guidance provide 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 this trust agreement are part of the school district's financial statements, thereby eliminating the effects of the lease agreement for financial reporting purposes.

13. Subsequent Events.

The district finalized the 2005 Certificate of Participation for \$8,900,000 in additional funds on July 1, 2005. Therefore, that liability is not reflected in this report.

DESOTO COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTAL INFORMATION

DESOTO COUNTY 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	\$ 41,116,591	\$ 41,815,750	\$ 42,299,578	\$ 699,159	\$ 483,828
State sources	86,047,412	86,047,412	86,874,499	-	827,087
Federal sources	210,000	210,000	354,463	-	144,463
Total Revenues	127,374,003	128,073,162	129,528,540	699,159	1,455,378
Expenditures:					
Instruction	79,599,941	80,665,524	73,546,751	(1,065,583)	7,118,773
Support services	47,120,462	48,697,913	45,706,512	(1,577,451)	2,991,401
Noninstructional services	1,077,987	1,347,514	1,155,158	(269,527)	192,356
Facilities acquisition and construction	3,697,000	3,697,000	1,297,676	-	2,399,324
Total Expenditures	131,495,390	134,407,951	121,706,097	(2,912,561)	12,701,854
Excess (Deficiency) of Revenues Over Expenditures	(4,121,387)	(6,334,789)	7,822,443	(2,213,402)	14,157,232
Other Financing Sources (Uses):					
Insurance loss recoveries			21,975	-	21,975
Sale of transportation equipment			13,775	-	13,775
Sale of other property			-	-	-
Operating transfers in	15,474,319	15,706,246	1,607,216	231,927	(14,099,030)
Other financing sources			245,682	-	245,682
Operating transfers out	(21,112,593)	(22,033,484)	(12,955,723)	(920,891)	9,077,761
Payment to refunded bond escrow agent				-	-
Other financing uses			(243,821)	-	(243,821)
Total Other Financing Sources (Uses)	(5,638,274)	(6,327,238)	(11,310,896)	(688,964)	(4,983,658)
Net Change in Fund Balances	(9,759,661)	(12,662,027)	(3,488,453)	(2,902,366)	9,173,574
Fund Balances:					
July 1, 2004	20,056,500	20,224,230	30,147,644	167,730	9,923,414
July 1, 2004, as restated	20,056,500	20,224,230	30,147,644	167,730	9,923,414
Residual equity transfer in (out)				-	-
June 30, 2005	\$ 10,296,839	\$ 7,562,203	\$ 26,659,191	\$ (2,734,636)	\$ 19,096,988

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

DESOTO COUNTY SCHOOL DISTRICT
Notes to the Required Supplementary Information
For the Year Ended June 30, 2005

Budgetary Comparison Schedule

1. Basis of Presentation.

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

2. Budget amendments and revisions.

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

3. Individual Fund Disclosures.

Individual funds that have an excess of expenditures over budget, including amounts of the excess, are as follows:

<u>Individual Fund</u>	<u>Amount</u>
Title V	\$ 12,914
Title III	\$ 22,576
Vocational Education	\$ 77,312
GO Bond Series C	\$ 637,651

All the funds listed above are in violation of state law. However, the school district has no liability associated with these violations.

SUPPLEMENTAL INFORMATION

DESOTO COUNTY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	\$ 330,676
Child nutrition cluster:		
School breakfast program	10.553	169,369
National school lunch program	10.555	2,816,775
Summer food service program for children	10.559	3,014
Total child nutrition cluster		<u>2,989,158</u>
Fresh fruit and vegetable program	10.582	<u>43,345</u>
Total U.S. Department of Agriculture		<u>3,363,179</u>
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	2,426,146
Vocational education - basic grants to states	84.048	141,889
Safe and drug-free schools and communities - state grants	84.186	90,835
State grants for innovative programs	84.298	42,120
English language acquisition grants	84.365	200,578
Improving teacher quality - state grants	84.367	1,083,348
Grants for state assessments and related activities	84.369	6,041
Total		<u>3,990,957</u>
Special education cluster:		
Special education - grants to states	84.027	3,563,772
Special education - preschool grants	84.173	126,571
Total		<u>3,690,343</u>
Total passed-through Mississippi Department of Education		<u>7,681,300</u>
Total U.S. Department of Education		<u>7,681,300</u>
Total for All Federal Awards		<u>\$ 11,044,479</u>

NOTES TO SCHEDULE

1. This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the financial statements.
2. The expenditure amounts include transfers out.

DESOTO COUNTY 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	\$ 105,398,264	\$ 72,459,016	\$ 9,051,519	\$ 23,887,729
Other	<u>92,907,160</u>	<u>8,507,860</u>	<u>2,244,811</u>	<u>82,154,489</u>
Total	\$ 198,305,424	\$ 80,966,876	\$ 11,296,330	\$ 106,042,218
Total number of students	25,200	25,200	25,200	25,200
Cost per student	<u>\$ 7,869</u>	<u>\$ 3,213</u>	<u>\$ 448</u>	<u>\$ 4,208</u>

For the 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); Support Services - Business (2500s)

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DESOTO COUNTY SCHOOL DISTRICT
REPORTS ON COMPLIANCE AND INTERNAL CONTROL

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WILLIAMS • PITTS • BEARD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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
DeSoto County School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the DeSoto County School District as of and for the year ended June 30, 2005, which collectively comprise the DeSoto County School District's basic financial statements and have issued our report thereon dated January 17, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the school district's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our 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. The reportable condition is described in the Schedule of Findings and Questioned Costs as Finding 2005-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our 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, the reportable condition described in the finding referred to above is considered to be a material weakness.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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 our audit and, accordingly, we do not express such an opinion. The results of our 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.

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC

Certified Public Accountants

January 17, 2006



WILLIAMS • PITTS • BEARD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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
DeSoto County School District

Compliance

We have audited the compliance of the DeSoto County School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. The school district's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the school district's management. Our responsibility is to express an opinion on the school district's compliance based on our audit.

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

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

Continued...

Continued...

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did not note any matters involving internal control over compliance and its operation that we consider to be material weaknesses.

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

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC

Certified Public Accountants

January 17, 2006



WILLIAMS • PITTS • BEARD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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

Superintendent and School Board
DeSoto County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the DeSoto County School District as of and for the year ended June 30, 2005, which collectively comprise DeSoto County School District's basic financial statements and have issued our report thereon dated January 17, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards.

Section 37-9-18 (3), Miss. Code Ann. (1972) states in part, "the auditor shall test to insure that the school district is complying with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds". As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$559,510 of classroom supply funds carried over from previous years.

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

1. Finding

Section 31-7-13, Miss. Code Ann (1972) requires two written bids for purchases between \$3,501 and \$15,000, unless state contract price is used. In October 2004, one of the activity funds purchased a piece of equipment for \$3,850 and obtained two quotes, but quotes were for two different sizes. Also, in June 2005, one of the activity funds purchased classroom reference books for \$7,845 and did not get two quotes.

Continued...

Recommendation

Controls should be established to ensure that the activity funds use the correct purchase laws.

Response

The district is purchasing a new activity fund program that contains more purchasing controls and can be viewed by business office personnel at the central office prior to purchases occurring. The business office can monitor purchase orders for necessary requirements such as quotes, bids, and EPL numbers. The district will begin to implement the software prior to June 30, 2006.

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 ensure that corrective action has been taken.

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

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Certified Public Accountants
January 17, 2006

DESOTO COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

DESOTO COUNTY 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 condition(s) identified that are not considered to be material weaknesses? No

Federal Awards:

4. Type of auditor's report issued on compliance for major federal programs: Unqualified

5. Internal control over major programs:
 - a. Material weakness (es) identified? No

 - b. Reportable condition(s) identified that are not considered to be material weaknesses? No

6. Any audit finding(s) reported as required by section ____ .510(a) of Circular A-133? No

7. Federal programs identified as major programs:
 - a. Child nutrition cluster
CFDA#10.553, CFDA#10.555, CFDA#10.559

 - b. Special education cluster
CFDA #84.027
CFDA #84.173

DESOTO COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For The Year Ended June 30, 2005

Federal Awards (Continued):

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 prior finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section _____.315(b) of OMB Circular A-133? No

Section 2: Findings Related to the Financial Statements

Material Weakness:

2005-1 Finding

According to the board minutes on January 3, 2005, the DeSoto County School Board approved the purchase of 22.4 acres adjacent to the present Southaven High School for a price of \$550,000, which is \$24,500 per acre, contingent upon State Board of Education approval of the site. However, the actual contract stated that DeSoto County Schools was purchasing +/- 8.42 acres, and the seller was donating an additional +/- 13.98 acres. Two warranty deeds were produced – one warranty deed for the purchase of 8.42 acres and one warranty deed of gift for donation of 13.97 acres. This would mean that DeSoto County Schools paid \$65,321 an acre for 8.42 acres which does not match the appraisal or the board minutes. This is clearly a violation of the intent of the DeSoto County School Board.

Recommendation

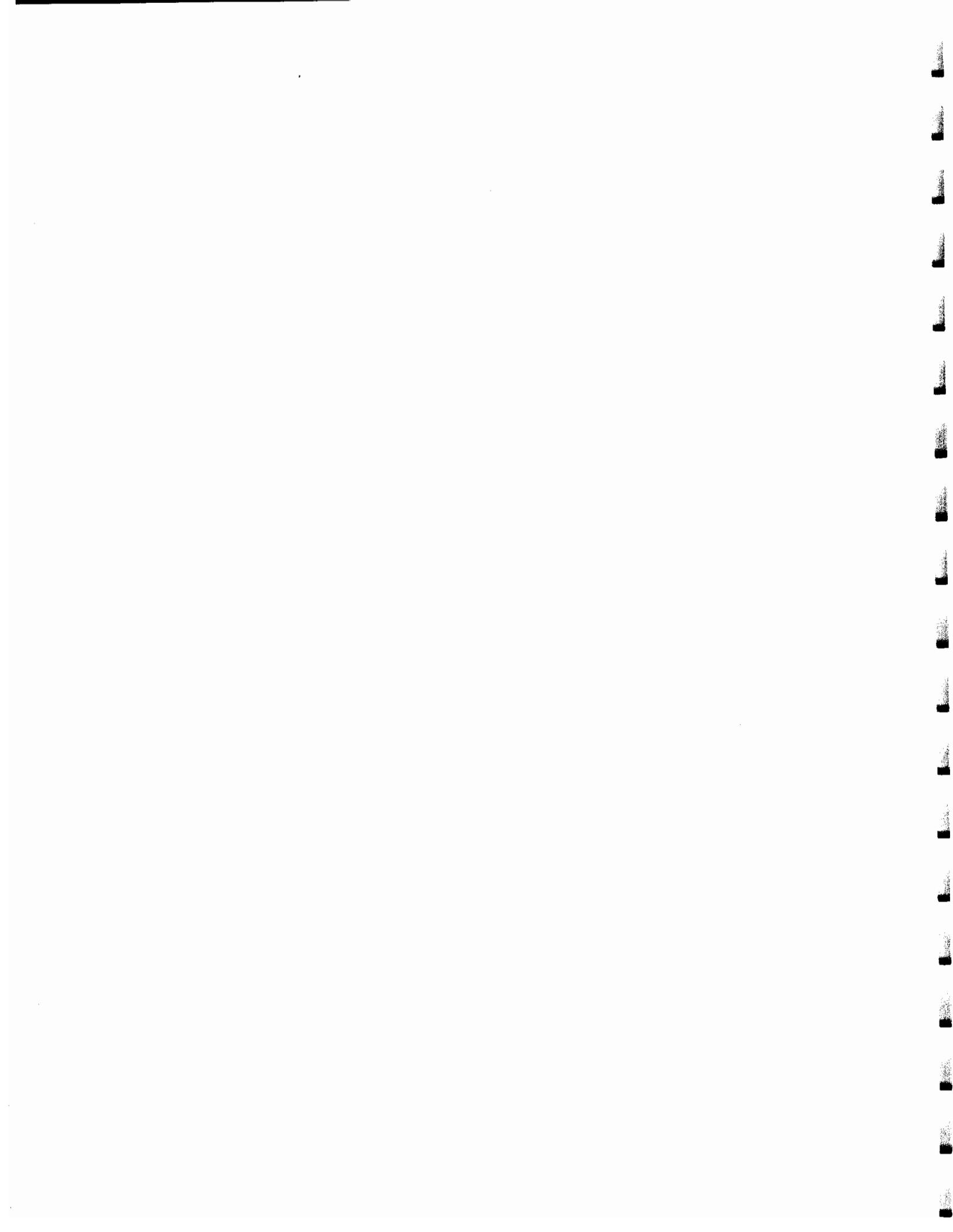
We recommend that the District consult with their attorney and the sellers, and correct the contract, the warranty deeds, and inform the sellers in writing of the final decisions made on these matters. Also, we recommend that internal control procedures be instigated that would prevent contracts from being signed that are different from the intent of the DeSoto County School Board.

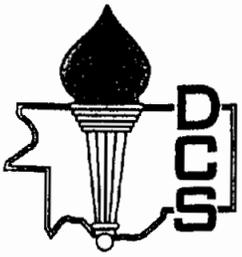
Section 3: Findings Related to Federal Awards

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

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AUDITEE'S CORRECTIVE ACTION PLAN





DeSoto County Schools

Milton Kuykendall
SUPERINTENDENT OF EDUCATION

5 EAST SOUTH STREET
HERNANDO, MISSISSIPPI 38632
662-429-5271
662-895-3434
901-523-0139
FAX 662-429-4198

Financial & Compliance Audit Division

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

Finding
2005-1

Corrective Action Plan Details

a. Name(s) of Contact Person(s) Responsible for Corrective Action:

- Keith Treadway, Board Attorney 662-895-8170
- Ken Reid, Assistant Superintendent of Finance 662-429-5271

b. Corrective Action Planned:

The School District, in our attempt to resolve this problem, has consulted with its attorney and the seller's attorney by phone and by email. We have informed the seller, through their attorney; of the problem and that the only acceptable solution is the correction of the transfer documents to reflect that the transaction was a sale of 22.4 acres at a price of \$550,000.00. We are currently awaiting the seller's response.

In order to insure that future contracts are in conformity with the intent of the Board, as expressed in its minutes, the district is instituting new procedures. Before any contracts or other legal document is signed by a representative of the District, the contract and the Board's minutes will be reviewed by the School Board's attorney. In addition, all legal documents will be approved before signature by the Assistant Superintendent for Finance and/or the District's business manager. A checklist will be provided which will instruct the District that no legal document is to be signed without the above mentioned signatures.

c. Anticipated Completion Date: June 30, 2006

Sincerely Yours,

Milton Kuykendall
Superintendent

