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KEMPER COUNTY SCHOOL DISTRICT

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

KEMPER COUNTY SCHOOL DISTRICT

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KEMPER COUNTY SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

Windham and Lacey, PLLC

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

Superintendent and School Board
Kemper County School District

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Kemper County School District as of and for the year ended June 30, 2005, which collectively comprise the Kemper County School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility for the Kemper 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 Kemper 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 July 24, 2006, on our consideration of the Kemper County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 4 through 9 and the Budgetary Comparison Schedule and corresponding notes on pages through 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 Kemper 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. 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.

Windham and Lacey, PLLC

Windham and Lacey, PLLC
July 24, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The discussion and analysis of Kemper 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. However, since this is the first year of implementation of the new reporting model contained in GASB Statement No. 34, the Statement permits the omission of prior year data in the year of implementation. The School District has elected not to present comparative data.

FINANCIAL HIGHLIGHTS

- Total net assets increased \$978,290, which represents 30% increase from fiscal year 2004, excluding the cumulative effect of GASB 34 adjustments.
- General revenues account for \$8,442,975 in revenue, or 70% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$3,595,276 or 30% of total revenues.
- The District had \$11,028,174 in expenses; only \$3,595,276 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$8,442,975 were adequate to provide for these programs.
- Among major funds, the General Fund had \$6,666,451 in revenues and \$7,018,288 in expenditures and (275,309) in other financing sources and uses. The General Fund's fund balance decreased \$645,050 over the prior year. The increase was a result of total expenses outpacing total revenues.
- Capital assets, net of accumulated depreciation, increased by \$1,116,145. This was a result of current year additions increasing at a greater rate than depreciation expense.
- Long-term debt decreased by \$156,958. The District issued no new debt during the fiscal year ending 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.

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

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

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

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

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

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

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

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

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

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 \$4,272,302 as of June 30, 2005.

By far the largest portion of the District's net assets (69%) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment, leased property under capital leases and construction in progress), less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

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

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

The following is a significant current year transaction that has had an impact on the Statement of Net Assets:

	Current year Governmental Activities	Prior year Governmental Activities
Current and other assets	\$ 2,198,646	2,212,217
Capital assets, net	5,054,051	3,937,906
Total assets	<u>7,252,697</u>	<u>6,150,123</u>
Current and other liabilities	727,191	445,949
Long-term debt outstanding	2,253,204	2,410,162
Total liabilities	<u>2,980,395</u>	<u>2,856,111</u>
Net assets:		
Invested in capital assets, net of related debt	2,949,051	1,722,906
Restricted	1,921,654	1,603,022
Unrestricted	-598,403	-31,916
Total net assets	<u>\$ 4,272,302</u>	<u>3,294,012</u>

- Long-term debt principal of \$160,761 was retired.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2005 were \$12,038,251. The total cost of all programs and services was \$11,028,174. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2005, as compared to the fiscal year ended June 30, 2004:

	Current year Amount	Prior year Amount
Revenues:		
Program revenues	\$ 3,595,276	3,125,573
General revenues	8,442,975	6,407,080
Total revenues	<u>12,038,251</u>	<u>9,532,653</u>
Expenses:		
Instruction	6,247,518	5,651,862
Support services	3,783,848	3,426,368
Non-instructional	693,503	630,517
Sixteenth section	206,506	46,610
Interest and other expenses on long-term liabilities	96,799	122,793
Total expenses	<u>11,028,174</u>	<u>9,878,150</u>
Increase in net assets	<u>\$ 1,010,077</u>	<u>345,497</u>

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

	Total Expenses	Net (Expense) Revenue
Instruction	\$ 6,247,518	(3,726,948)
Support services	3,783,848	(3,783,848)
Non-instructional	693,503	100,839
Sixteenth section	206,506	73,858
Interest and other expenses on long-term liabilities	96,799	(96,799)
Total expenses	<u>\$ 11,028,174</u>	<u>(7,432,898)</u>

- Net cost of governmental activities (\$7,432,898), was financed by general revenue, which is made up of primarily property taxes (\$1,189,097), state revenue (\$5,262,654) and federal revenues (\$220,430), and Sixteenth Section sources (\$1,665,349).

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 \$1,490,148, a decrease of \$307,725 due primarily to slight increases during the year of normal expenditures over ongoing revenues. \$460,160 or 31% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$1,029,988 or 69% 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 \$645,050. The decrease was a result of total revenues outpacing total expenses. Among other major funds, the 16th Section Escrow Fund increased by \$87,443, the 16th Section Interest Fund increased \$198,945, the 16th Section Principal Fund was unchanged, and the Other Governmental Funds increased \$50,937 for the fiscal year ending June 30, 2005. Other Governmental Funds increased primarily due to operating expenditures being less than revenue received for the fiscal year.

BUDGETARY HIGHLIGHTS

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

* At the time the original budget was prepared Capital Projects were not considered until after the school year had begun. Capital Project expenditures is the reason for the increase on the District's final revised budget.

* Special Revenue on the District's final revised budget increased significantly from original budget estimates due to several timber sales on 16th Section School Land. These funds were to finance capital projects that were necessary for the school district.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2005, the District's total capital assets were \$7,906,176, including land, school buildings, busses, other school vehicles and furniture and equipment. This amount represents an increase of \$1,177,921 from the previous year. The majority of this increase was a result of construction costs of \$1,163,179, of furniture and equipment purchases of \$79,920, and the purchase of mobile equipment for \$97,500, and the retirement of \$149,935 of mobile equipment and \$12,743 of furniture and equipment. The total accumulated depreciation as of June 30, 2005 was \$2,852,125 and total depreciation expense for the year was \$209,330 resulting in total net capital assets of \$5,054,051.

Debt Administration. At June 30, 2005, the District had \$2,105,000 in limited obligation bonds, \$40,000 in 3 mills notes payable, and \$52,925 in Other loans, of which \$171,761 is due within one year.

CURRENT ISSUES

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

The District has committed itself to financial excellence for many years. The millage has decreased 1.63 mills over 3 years. In addition, the District system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

Latest enrollment figures indicate that student enrollment in the District will decrease by 2 students. The budget for the next fiscal year has taken into account this increase in both funding and staffing needs.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Kemper County School District, PO Box 219, DeKalb, MS, 39328.

KEMPER COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS

Kemper County School District
Statement of Net Assets
June 30, 2005

Exhibit A

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 1,583,274
Investments	23,940
Due from other governments	454,601
Inventories and prepaid items	20,536
Restricted assets	116,295
Capital assets, net	<u>5,054,051</u>
 Total Assets	 <u>7,252,697</u>
Liabilities	
Accounts payable and accrued liabilities	227,495
Due to other funds	439,233
Deferred revenue/Unearned revenue	41,770
Interest payable on long-term liabilities	18,693
Long-term liabilities, due within one year	
Capital related liabilities	120,000
Non-capital related liabilities	54,266
Long-term liabilities, due beyond one year	
Capital related liabilities	1,985,000
Non-capital related liabilities	<u>93,938</u>
 Total Liabilities	 <u>2,980,395</u>
Net Assets	
Invested in capital assets, net of related debt	2,949,051
Restricted net assets:	
Expendable:	
School-based activities	609,424
Debt service	126,262
Capital improvements	60,221
Forestry improvements	480,325
Unemployment benefits	29,127
Non-expendable:	
Sixteenth section	616,295
Unrestricted	<u>(598,403)</u>
 Total Net Assets	 \$ <u>4,272,302</u>

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

Kemper County School District
Statement of Activities
For the Year Ended June 30, 2005

Exhibit B

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction	\$ 6,247,518	97,536	2,423,034	(3,726,948)
Support services	3,783,848			(3,783,848)
Non-instructional	693,503	92,997	701,345	100,839
Sixteenth section	206,506	280,364		73,858
Interest on long-term liabilities	96,799			(96,799)
Total Governmental Activities	\$ 11,028,174	470,897	3,124,379	(7,432,898)

General
Revenues:

Taxes:

General purpose levies 1,189,097

Debt purpose levies 41,010

Gaming

Unrestricted grants and
contributions:

State 5,262,654

Federal 220,430

Unrestricted investment earnings 30,988

Sixteenth section sources 1,665,349

Other 33,447

Total General Revenues 8,442,975

Total General Revenues, Special Items,
Extraordinary Items and Transfers

8,442,975

Change in Net Assets

1,010,077

Net Assets - Beginning

3,294,012

Prior Period Adjustments

(31,787)

Net Assets - Beginning - Restated

3,262,225

Net Assets - Ending

\$ 4,272,302

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

Kemper County School District
 Balance Sheet - Governmental Funds
 June 30, 2005

Exhibit C

	General Funds	16th Section Escrow Fund	16th Section Interest Fund	16th Section Principal Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	57,296	480,319	658,997	116,295	386,662	1,699,569
Investments	-	-	-	-	23,940	23,940
Due from other governments	76,103	-	-	-	378,498	454,601
Due from other funds	316,494	-	200,000	-	135,532	652,026
Advance to other funds	-	-	-	500,000	-	500,000
Inventories and prepaid items	-	-	-	-	20,536	20,536
Total Assets	449,893	480,319	858,997	616,295	945,168	3,350,672
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities	1,874	(6)	30,000	-	195,627	227,495
Due to other funds	398,218	-	362,498	-	330,543	1,091,259
Advances from other funds	500,000	-	-	-	-	500,000
Deferred revenue	-	-	-	-	41,770	41,770
Total Liabilities	900,092	(6)	392,498	-	567,940	1,860,524

	General Funds	16th Section Escrow Fund	16th Section Interest Fund	16th Section Principal Fund	Other Governmental Funds	Total Governmental Funds
Fund Balances:						
Reserved for:						
Advances	-	-	-	500,000	-	500,000
Unemployment benefits						29,127
Forestry improvements						480,325
Inventory	-		-	-	20,536	20,536
Unreserved:						
Undesignated, reported in:						
General Fund	(450,199)	-	-	-	-	(450,199)
Special Revenue Funds		480,325	466,499	-	151,516	588,888
Capital Projects Funds			-	-	60,221	60,221
Debt Service Funds			-	-	144,955	144,955
Permanent Funds	-		-	116,295	-	116,295
Total Fund Balances	<u>(450,199)</u>	<u>480,325</u>	<u>466,499</u>	<u>616,295</u>	<u>377,228</u>	<u>1,490,148</u>
Total Liabilities and Fund Balances	<u>449,893</u>	<u>480,319</u>	<u>858,997</u>	<u>616,295</u>	<u>945,168</u>	<u>3,350,672</u>

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

Kemper County School District
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2005

Exhibit C-1

	Amount
Total Fund Balance - Governmental Funds	\$ 1,490,148
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 \$2,852,125.	5,054,051
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(2,253,204)
3. Governmental funds recognize interest on long-term debt when it becomes due, however the Statement of Net Assets recognizes interest as it accrues.	(18,693)
Total Net Assets - Governmental Activities	\$ <u>4,272,302</u>

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

Kemper County School District
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds
For the year ended June 30, 2005

Exhibit D

	General Funds	16th Section Escrow Fund	16th Section Interest Fund	16th Section Principal Fund	Other Governmental Funds	Total Governmental Funds
Local sources	1,327,160	-	-	-	121,843	1,449,003
Intermediate sources	-	-	-	-	-	-
State sources	5,065,624	-	-	-	446,349	5,511,973
Federal sources	273,667	-	-	-	2,823,265	3,096,932
Sixteenth section sources	-	284,750	1,671,334	14,660	-	1,970,744
Total Revenues	6,666,451	284,750	1,671,334	14,660	3,391,457	12,028,652
Instruction	4,338,941	-	-	-	1,936,548	6,275,489
Support services	2,674,065	-	-	-	1,046,099	3,720,164
Noninstructional services	5,282	-	-	-	688,221	693,503
Sixteenth section	-	183,088	16,470	-	6,948	206,506
Facilities acquisition and construction	-	-	-	-	1,163,179	1,163,179
Debt service:						-
Principal		-	-	-	160,761	160,761
Interest	-	-	-	-	109,112	109,112
Other	-	-	-	-	599	599

Total Expenditures	<u>7,018,288</u>	<u>183,088</u>	<u>16,470</u>	<u>-</u>	<u>5,111,467</u>	<u>12,329,313</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(351,837)</u>	<u>101,662</u>	<u>1,654,864</u>	<u>14,660</u>	<u>(1,720,010)</u>	<u>(300,661)</u>
	-	-	-	-	-	-
Insurance loss recoveries	2,255	-	-	-	22,468	24,723
Operating transfers in	1,395,289	-	100,000	-	1,802,948	3,298,237
Operating transfers out	(1,672,853)	(4,346)	(1,551,909)	(14,660)	(54,469)	(3,298,237)
Total Other Financing Sources (Uses)	<u>(275,309)</u>	<u>(4,346)</u>	<u>(1,451,909)</u>	<u>(14,660)</u>	<u>1,770,947</u>	<u>24,723</u>
Net Change in Fund Balances	<u>(627,146)</u>	<u>97,316</u>	<u>202,955</u>	<u>-</u>	<u>50,937</u>	<u>(275,938)</u>
Fund balances---July 1, 2004, as previously reported	194,851	392,882	267,554	616,295	326,291	1,797,873
Prior period adjustment	(17,904)	(9,873)	(4,010)	-	-	(31,787)
Fund balances---July 1, 2004, restated	<u>176,947</u>	<u>383,009</u>	<u>263,544</u>	<u>616,295</u>	<u>326,291</u>	<u>1,766,086</u>
Fund balances---June 30, 2005	<u>(450,199)</u>	<u>480,325</u>	<u>466,499</u>	<u>616,295</u>	<u>377,228</u>	<u>1,490,148</u>

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

Kemper County School District
 Reconciliation of the Governmental Funds Statement of Revenues,
 Expenditures and Changes in Fund Balances to the Statement of Activities
 For the Year Ended June 30, 2005

Exhibit D-1

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ (275,938)
Amounts reported for governmental activities in the Statement of Activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchase amounted to \$1,340,599 and the depreciation expense amounted to \$ 209,330.	1,131,269
2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Activities.	160,761
3. Governmental funds recognize interest on long-term debt when it becomes due, however, the Statement of Activities recognizes interest as it accrues regardless of when it becomes due.	12,912
4. Gains and losses on the sale or disposals of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds.	9,599
5. Expenses in the Statement of Activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds:	
Compensated absences	(3,803)
6. Proceeds from insurance loss recoveries are reported as other financing sources in the governmental funds, but net against book value of the asset in the Statement of Activities.	<u>(24,723)</u>
Change in Net Assets of Governmental Activities	\$ <u><u>1,010,077</u></u>

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

Kemper County School District
Statement of Fiduciary Asset and Liability Balances
Agency Funds
June 30, 2005

Exhibit E

ASSETS

Cash	14,202
Due from other funds	439,764
	<hr/>
Total assets	<u>453,966</u>

LIABILITIES

Accounts payable and accrued liabilities	453,435
Due to other funds	531
	<hr/>
TOTAL LIABILITIES	<u>453,966</u>

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

KEMPER COUNTY SCHOOL DISTRICT

Notes to the financial statements for the year ended June 30, 2005

(1) Summary of Significant Accounting Policies.

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

A. Financial Reporting Entity.

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

As defined by accounting principles generally accepted in the United States of America, the school district is considered a "primary government." The school district is governed by a 5-member board which was elected by citizens of each defined county district.

B. Basis of Presentation.

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

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

KEMPER COUNTY SCHOOL DISTRICT

Notes to the financial statements for the year ended June 30, 2005

C. Measurement Focus and Basis of Accounting.

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Program revenues on the Statement of Activities consist primarily of state appropriations and federal awards.

In the fund financial statements, governmental funds and agency funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within 60 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.

Sixteenth Section Escrow Fund - This fund is an expendable sixteenth section fund. It accounts for financial resources from school sixteenth section land that includes, but is not limited to 15% of timber and forest product sales and interest on investments. Expenditures from this fund include, but is not limited to purchase of investments, payments of itemized invoices from the Mississippi Forestry Commission, and transfer of expendable revenues to the District Maintenance fund or to a building fund by board order.

Sixteenth Section Interest Fund - This fund serves to collect expendable sixteenth section revenues from various sixteenth section sources. Expendable revenues from this fund are transferred to the district's General Fund per specific statutory board order.

Sixteenth Section Principal Fund - This is a permanent fund consisting of funds derived from certain uses which shall be invested and only the interest and income derived from such funds shall be expendable by the school district

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment

KEMPER COUNTY SCHOOL DISTRICT

Notes to the financial statements for the year ended June 30, 2005

of, general long-term debt principal, interest and related costs.

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

FIDUCIARY FUNDS

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

D. Account Classifications.

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

E. Encumbrances.

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

F. Cash and Cash Equivalents.

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

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

G. Investments.

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

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

Investments are reported at fair value.

KEMPER COUNTY SCHOOL DISTRICT

Notes to the financial statements for the year ended June 30, 2005

H. Inventories and Prepaid Items.

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

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

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

I. Capital Assets.

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

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are reported in the government-wide statements and proprietary funds. Depreciation is calculated on the straight-line basis for all assets, except land. The following schedule details those thresholds.

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

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

J. Long-term Liabilities.

Long-term liabilities are 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 6 for details.

KEMPER COUNTY SCHOOL DISTRICT

Notes to the financial statements for the year ended June 30, 2005

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. . Noncurrent portions of long-term interfund loan receivables are reported as advances and are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and, therefore, are not available for appropriation.

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

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

L. Equity Classifications.

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

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

Reserved for advances - An account used to offset advances recorded in the asset accounts since they do not constitute available spendable resources and are not a component of net current assets.

KEMPER COUNTY SCHOOL DISTRICT

Notes to the financial statements for the year ended June 30, 2005

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

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

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

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

N. Mississippi Adequate Education Program Revenues.

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

O. Compensated Absences.

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

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

KEMPER COUNTY SCHOOL DISTRICT

Notes to the financial statements for the year ended June 30, 2005

P. Other Significant Accounting Policies.

The Debt Service Funds for long-term debt issued prior to April 15, 1986, under the provisions of Section 37-59-101, Miss. Code Ann. (1972), *et seq.*, and prior to March 3, 1987, under the provisions of Section 37-59-1, Miss. Code Ann. (1972), *et seq.*, are maintained by the governing authority of the city and are not included in the government-wide financial statements of the school district. The borrowing of money by the issuance of the debt referred to above was a function of the governing authority of the city prior to April 15, 1986, or March 3, 1987, as the case may be.

In our state, school boards and superintendents had no responsibility in connection with the debt issued before the dates referred to above. The payment of this debt is an obligation of the governing authority of the city who is acting for the school district.

In connection with any debt issued subsequent to the dates referred to above, the school board is responsible for the issuance and maintenance of school district related debt.

(2) Changes in Accounting Standards

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

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

A. Cash and Cash Equivalents.

The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$1,699,569 and \$14,202, respectively. The carrying amount of deposits reported in the government-wide financial statements was: Cash - \$1,583,274 and Restricted Assets - \$116,295. The Restricted Assets represent the cash balance of the sixteenth section principal fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$2,272,239.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2005, none of the district's bank balance of \$2,272,239 was exposed to custodial credit risk.

KEMPER COUNTY SCHOOL DISTRICT

Notes to the financial statements
for the year ended June 30, 2005

B. Investments.

As of June 30, 2005, the district had the following investments

<u>Investment Type</u>	<u>Maturities (in years)</u>	<u>Fair Value</u>	<u>Rating</u>
Hancock Horizon treasury money market	Less than 1 year	23,940	Aaa

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

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

Custodial Credit Risk - Investments. Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk.

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.

(4) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

<u>Governmental Funds:</u>	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 316,494	398,218
16th Section Interest Fund	200,000	362,498
Other Non-Major Funds	135,532	330,543
Total governmental funds	652,026	1,091,259
Fiduciary Funds	439,764	531
Total all funds	\$ 1,091,790	1,091,790

The purpose of the above loans represents errors in postings and loans for working capital.

KEMPER COUNTY SCHOOL DISTRICT

Notes to the financial statements
for the year ended June 30, 2005

B. Advances From/To Other Funds:

	<u>Advances from</u>	<u>Advances to</u>
General Fund	\$ 500,000	
16th Sectional Principal Fund		500,000
The purpose of the advance was for construction costs associated with the HVAC and Roofing project.		

C. Transfers In/Out:

	<u>Transfers in</u>	<u>Transfers out</u>
General Fund	\$ 1,395,289	1,672,853
16th Section Escrow Fund		4,346
16th Section Interest Fund	100,000	1,551,909
16th Section Principal Fund		14,660
Other Governmental Funds	1,802,948	54,469
	<u>3,298,237</u>	<u>3,298,237</u>

All interfund transfers were routine and consistent with the activities of the fund making the transfers.

KEMPER COUNTY SCHOOL DISTRICT

Notes to the financial statements
for the year ended June 30, 2005

(5) Capital Assets.

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

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Governmental activities: Capital assets, not being depreciated:				
Land	\$ 25,410			25,410
Construction in progress		1,163,179		1,163,179
Total capital assets, not being depreciated	<u>25,410</u>	<u>1,163,179</u>	<u>0</u>	<u>1,188,589</u>
Capital assets, being depreciated:				
Buildings	5,205,071			5,205,071
Improvements other than buildings	38,425			38,425
Mobile equipment	1,141,268	97,500	-149,935	1,088,833
Furniture and equipment	318,081	79,920	-12,743	385,258
Total capital assets being depreciated	<u>6,702,845</u>	<u>177,420</u>	<u>-162,678</u>	<u>6,717,587</u>
Less: Accumulated depreciation for:				
Buildings	1,693,510	98,963		1,792,473
Mobile equipment	932,218	80,763	-134,938	878,043
Furniture and equipment	164,621	29,604	-12,616	181,609
Total accumulated depreciation	<u>2,790,349</u>	<u>209,330</u>	<u>-147,554</u>	<u>2,852,125</u>
Total capital assets, being depreciated, Net	<u>3,912,496</u>	<u>-31,910</u>	<u>-15,124</u>	<u>3,865,462</u>
Governmental activities capital assets, net	<u>\$ 3,937,906</u>	<u>1,131,269</u>	<u>-15,124</u>	<u>5,054,051</u>

KEMPER COUNTY SCHOOL DISTRICT

Notes to the financial statements
for the year ended June 30, 2005

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

	Remaining Commitment	Required Future Financing
Kemper County HVAC & Roofing	\$ 55,189	-0-
Kemper County Field House (enter project name)	57,712	-0-
Total	\$ 112,901	0

(6) Long-term Liabilities.

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

	Balance 7/1/2004	Additions	Reductions	Balance 6/30/2005	Amounts due Within one year
Limited obligation bonds payable	\$ 2,215,000		110,000	2,105,000	120,000
Three mill notes payable	79,000		39,000	40,000	40,000
Other loans payable	64,686		11,761	52,925	11,761
Compensated absences payable	51,476	3,803		55,279	2,505
Total	\$ 2,410,162	3,803	160,761	2,253,204	174,266

A. Limited obligation bonds payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State Aid Capital					
Improvement Bonds	Varies	4/1/1998	4/1/2018	\$ 2,600,000	2,105,000
Total				\$ 2,600,000	2,105,000

KEMPER COUNTY SCHOOL DISTRICT

Notes to the financial statements
for the year ended June 30, 2005

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

Year Ending June 30	Principal	Interest and Maintenance Charges	Total
2006	\$ 120,000	100,725	220,725
2007	125,000	93,225	218,225
2008	135,000	85,725	220,725
2009	140,000	77,625	217,625
2010	145,000	35,663	180,663
2011-2015	840,000	251,775	1,091,775
2016-2018	600,000	54,900	654,900
Total	\$ 2,105,000	699,638	2,804,638

The state aid capital improvement bonds are secured by an irrevocable pledge of certain revenues the district receives from the state of Mississippi pursuant to the Mississippi Accountability and Adequate Education Program Act, Sections 37-151-1 through 37-151-7, Miss. Code Ann. (1972). The state aid capital improvement bonds are not included in the computation of the debt limit percentage. This debt will be retired from Debt Service fund #4031 – MAEP note fund.

B. Three mill notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Three mill	4.95%	8/25/1995	8/25/2005	\$ 325,000	40,000
Total				\$ 325,000	40,000

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

Year Ending 30-Jun	Principal	Maintenance Charges	Total
2006	\$ 40,000	1,980	41,980

This debt will be retired from the debt service fund # 4021 – Three mill loan fund.

KEMPER COUNTY SCHOOL DISTRICT

Notes to the financial statements
for the year ended June 30, 2005

C. Other loans payable.

Debt currently outstanding is as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Asbestos Loan	N/A	5/14/1990	5/14/2010	\$ 211,700	\$ 52,925

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

<u>Year Ending</u>	<u>Principal</u>	<u>Maintenance Charges</u>	<u>Total</u>
2006	\$ 11,761		\$ 11,761
2007	11,761		11,761
2008	11,761		11,761
2009	11,761		11,761
2010	5,881		5,881
	<u>\$ 52,925</u>	<u>-</u>	<u>\$ 52,925</u>

This debt will be retired from debt service fund # 4023 – Asbestos loan 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), Miss. Code Ann. (1972). Compensated absences will be paid from the fund from which the employees' salaries were paid.

KEMPER COUNTY SCHOOL DISTRICT

Notes to the financial statements for the year ended June 30, 2005

(7) Defined Benefit Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The current rate is 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 \$585,584, \$536,264 and \$530,155, respectively, which equaled the required contributions for each year.

(8) Sixteenth Section Lands.

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

Year Ending June 30	Amount
2006	\$ 68,560
2007	63,798
2008	32,742
2009	26,049
2010	21,387
2011 – 2015	89,780
2016 – 2020	89,205
2021 - 2025	87,958
2026 - 2030	71,273
Thereafter	166,035
Total	\$ 716,787

(9) Deficit Fund Balance of Individual Funds.

The District Maintenance Fund has a deficit fund balance in the amount of \$463,517. The deficit fund balance of the District Maintenance Fund is in violation of state law. However, the school district has no liability associated with this violation.

KEMPER COUNTY SCHOOL DISTRICT

Notes to the financial statements
for the year ended June 30, 2005

(10) Prior Period Adjustments/Exhibits.

A summary of significant fund equity adjustments is as follows:

Exhibit B - Statement of Activities

<u>Explanation(s)</u>	<u>Amount</u>
1 Net effect of adjustment for numerous coding errors in prior year transactions	31,787

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

<u>Major Funds</u>	<u>Explanation(s)</u>	<u>Amount</u>
General Fund	Net effect of adjustment for numerous coding errors in prior year transactions	(17,904)
16 th Section Escrow Fund		(9,873)
16 th Section Interest Fund		(4,010)
Total		\$ <u>(31,787)</u>

(11) Litigation.

The school district is party to various legal proceedings which normally occur in governmental operations. These legal proceedings are not likely to have a material impact on the affected funds of the school district.

(12) 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. 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.

(13) Subsequent Events.

Subsequent to June 30, 2006, the District entered into a contract with J & J Contractors, Inc. for roofing repairs to West Kemper Elementary for \$125,141.

KEMPER COUNTY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

Kemper 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	Final
				to Final	to Actual
Revenues:					
Local sources	\$ 1,330,487	1,327,160	1,327,160	(3,327)	0
State sources	5,279,981	5,065,624	5,065,624	(214,357)	0
Federal sources	118,047	273,667	273,667	155,620	0
Total Revenues	6,728,515	6,666,451	6,666,451	(62,064)	0
Expenditures:					
Instruction	4,103,851	4,337,485	4,338,941	(233,634)	(1,456)
Support services	2,314,331	2,674,065	2,674,065	(359,734)	0
Noninstructional services	5,050	5,282	5,282	(232)	0
Debt service:					
Principal		11,013		(11,013)	11,013
Total Expenditures	6,423,232	7,027,845	7,018,288	(604,613)	9,557
Excess (Deficiency) of Revenues over Expenditures	305,283	(361,394)	(351,837)	(666,677)	9,557
Other Financing Sources (Uses):					
Insurance loss recoveries		2,255	2,255	2,255	0
Operating transfers in	980,279	1,395,289	1,395,289	415,010	0
Operating transfers out	(1,247,324)	(1,661,840)	(1,672,853)	(414,516)	(11,013)
Total Other Financing Sources (Uses)	(267,045)	(264,296)	(275,309)	2,749	(11,013)
Net Change in Fund Balances	38,238	(625,690)	(627,146)	(663,928)	(1,456)
Fund Balances:					
July 1, 2004		194,851	194,851	194,851	0
Prior period adjustments		(17,904)	(17,904)	(17,904)	0
July 1, 2004, as restated	0	176,947	176,947	176,947	0
June 30, 2005	\$ 38,238	(448,743)	(450,199)	(486,981)	(1,456)

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

Kemper County School District
 Budgetary Comparison Schedule
 16th Section Escrow 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:					
Sixteenth section sources	\$ 3,450	277,750	284,750	274,300	7,000
Total Revenues	3,450	277,750	284,750	274,300	7,000
Expenditures:					
Sixteenth section	318,000	190,088	183,088	127,912	7,000
Total Expenditures	318,000	190,088	183,088	127,912	7,000
Excess (Deficiency) of Revenues over Expenditures	(314,550)	87,662	101,662	402,212	14,000
Other Financing Sources (Uses):					
Operating transfers out	(3,450)	(4,346)	(4,346)	(896)	0
Total Other Financing Sources (Uses)	(3,450)	(4,346)	(4,346)	(896)	0
Net Change in Fund Balances	(318,000)	83,316	97,316	401,316	14,000
Fund Balances:					
July 1, 2004	400,000	392,882	392,882	(7,118)	0
Prior period adjustments		(9,873)	(9,873)	(9,873)	0
July 1, 2004, as restated	400,000	383,009	383,009	(16,991)	0
June 30, 2005	\$ 82,000	466,325	480,325	384,325	14,000

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

Kemper County School District
 Budgetary Comparison Schedule
 16th Section Interest 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:					
Sixteenth section sources	\$ 80,000	1,672,189	1,671,334	1,592,189	(855)
Total Revenues	80,000	1,672,189	1,671,334	1,592,189	(855)
Expenditures:					
Sixteenth section		17,325	16,470	(17,325)	855
Total Expenditures	0	17,325	16,470	(17,325)	855
Excess (Deficiency) of Revenues over Expenditures	80,000	1,654,864	1,654,864	1,574,864	0
Other Financing Sources (Uses):					
Operating transfers in		100,000	100,000	100,000	0
Operating transfers out	(372,139)	(1,551,909)	(1,551,909)	(1,179,770)	0
Total Other Financing Sources (Uses)	(372,139)	(1,451,909)	(1,451,909)	(1,079,770)	0
Net Change in Fund Balances	(292,139)	202,955	202,955	495,094	0
Fund Balances:					
July 1, 2004	400,000	267,554	267,554	(132,446)	0
Prior period adjustments		(4,010)	(4,010)	(4,010)	0
July 1, 2004, as restated	400,000	263,544	263,544	(136,456)	0
June 30, 2005	\$ 107,861	466,499	466,499	358,638	0

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

Notes to the Required Supplementary Information

Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(2) Budget amendments and revisions.

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

KEMPER COUNTY SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

Kemper County School District
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2005

Federal Grantor/ Pass through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
U.S. Department of Agriculture		
Passed through Mississippi Department of Education:		
Non cash assistance:		
Food donation	10.550	\$ 46,795
Fresh fruit and vegetable program	10.582	1,965
Total non-cash assistance		<u>48,760</u>
Child nutrition cluster:		
School breakfast program	10.553	223,899
National school lunch program	10.555	422,690
Summer food service program for children	10.559	2,314
Total child nutrition cluster		<u>648,903</u>
Total U.S. Department of Agriculture		<u>697,663</u>
U.S. Department of Defense		
Direct program(s):		
Reserve Officers' Training Corps	12.XXX	53,268
Total		<u>53,268</u>
U.S. Department of Education		
Passed through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	747,824
Vocational education basic grants to states	84.048	27,994
Safe and drug free schools and communities national programs	84.184	563
Safe and drug free schools and communities state grants	84.186	11,829
Eisenhower professional development state grants	84.281	197,385
State grants for innovative programs	84.298	9,204
Education technology state grants	84.318	228,038
Title I accountability grants	84.348	63,683
Reading first state grants	84.357	545,192
Rural education	84.358	66,308
Total		<u>1,898,020</u>
Special education cluster:		
Special education grants to states	84.027	215,021
Special education preschool grants	84.173	3,634
Total special education cluster		<u>218,655</u>
Total passed through Mississippi Department of Education		<u>2,116,675</u>
Total U.S. Department of Education		<u>2,116,675</u>
Total for All Federal Awards		<u>\$ 2,867,606</u>

NOTES TO SCHEDULE

1. This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the financial statements.
2. The expenditure amounts include transfers out.
3. The pass-through entities did not assign identifying numbers to the school district.
4. The balance outstanding at June 30, 2005, of the loan received in a previous fiscal year under former CFDA #66.702 for asbestos removal was \$52,925.

Kemper 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>Instructional</u>	<u>Administrative</u>	<u>Other</u>
	\$			
Salaries and fringe benefits	8,028,720	5,319,334	1,091,272	1,618,114
Other	4,300,593	956,155	308,516	3,035,922
Total	12,329,313	6,275,489	1,399,788	4,654,036
Total number of students	1,327	1,327	1,327	1,327
Cost per Student	\$ 9,291	4,729	1,055	3,507

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

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

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

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

KEMPER COUNTY SCHOOL DISTRICT

SPECIAL REPORTS

Windham and Lacey, PLLC

Certified Public Accountants

2708 Old Brandon Road
Pearl, MS 39208
(601)939-8676

Members:
American Institute of CPAs
Mississippi Society of CPAs

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

Superintendent and School Board
Kemper County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Kemper County School District as of and for the year ended June 30, 2005, and have issued our report thereon dated July 24, 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 an opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did not note any matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

Windham and Lacey, PLLC

Windham and Lacey, PLLC
July 24, 2006

Windham and Lacey, PLLC

Certified Public Accountants

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

Superintendent and School Board
Kemper County School District

Compliance

We have audited the compliance of the Kemper 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 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, Kemper County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the Kemper 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 an 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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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.

Windham and Lacey, PLLC

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July 24, 2006

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

Superintendent and School Board
Kemper County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Kemper County School District as of and for the year ended June 30, 2005, which collectively comprise Kemper County School District's basic financial statements and have issued our report thereon dated July 24, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Section 37-9-18(3), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure that the school district is complying with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds". As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain other 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 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 \$5,557 of classroom supply funds carried over from previous years.

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

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

Windham and Lacey, PLLC

Windham and Lacey, PLLC
July 24, 2006

KEMPER COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section 1: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|---|-------------|
| 1. | Type of auditor's report issued on the financial statements: | Unqualified |
| 2. | Material noncompliance relating to the financial statements? | No |
| 3. | Internal control over financial reporting: | |
| a. | Material weakness(es) identified? | No |
| b. | Reportable condition(s) identified that are not considered to be material weaknesses? | 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
School Breakfast Program, CFDA # 10.553
National School Lunch Program, CFDA # 10.555
Summer food service program for children, CFDA # 10.559 | |
| b. | Title I – grants to local educational agencies
CFDA # 84.010 | |
| c. | Reading First state grant
CFDA # 84.357 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | No |
| 10. | Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____315(b) of OMB Circular A-133? | |

Section 2: Financial Statement Findings

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

Section 3: Federal Award Findings and Questioned Costs

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