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NESHOBA COUNTY SCHOOL DISTRICT

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

**NESHOBA COUNTY SCHOOL DISTRICT
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**NESHOBA COUNTY SCHOOL DISTRICT
FINANCIAL AUDIT REPORT**



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

February 14, 2006

Superintendent and School Board
Neshoba County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Neshoba County School District as of and for the year ended June 30, 2005, which collectively comprise the Neshoba County School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Neshoba 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Neshoba 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 February 14, 2006, on our consideration of the Neshoba 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 read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages (4) through (10) and the Budgetary Comparison Schedule and corresponding notes on pages (36) through (39) 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 Neshoba 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.

Philadelphia, Mississippi

Watkins Ward and Stafford PLLC

**NESHOBA COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

NESHOBA COUNTY SCHOOL DISTRICT

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Executive Secretary

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

The discussion and analysis of Neshoba 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.

FINANCIAL HIGHLIGHTS

- Total net assets increased \$1,177,979, consisting of change in net assets of \$1,190,317 and a prior period adjustment of (\$12,338), which represents 11% increase from fiscal year ending June 30, 2004.
- General revenues account for \$15,243,557 in revenue, or 79% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$4,041,596 or 21% of total revenues.
- The District had \$18,094,836 in expenses; only \$4,041,596 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$15,243,557 were adequate to provide for these programs.
- Among major funds, the General Fund had \$14,664,802 in revenues and \$13,436,554 in expenditures. The General Fund's fund balance increased \$673,963 over the prior year. The increase was a result of total revenues outpacing total expenses.
- Capital assets, net of accumulated depreciation, decreased by \$202,970. This decrease was a result of current year depreciation expense increasing at a greater rate than capital asset additions.

- Long-term debt decreased by \$324,697. 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.

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

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

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

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

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

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

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

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

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

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

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and is included as supplementary information in this report. Also included in the supplemental information is a schedule of instructional, administrative and other expenditures of governmental funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$ 12,427,050 as of June 30, 2005.

By far the largest portion of the District's net assets (49%) reflects its investment in capital assets (e.g., land, buildings, improvements other than buildings, mobile equipment, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

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:

	<u>June 30,</u> <u>2005</u>	<u>June 30,</u> <u>2004</u>
Current assets	\$ 7,539,323	6,270,859
Capital assets, net	<u>11,493,756</u>	<u>11,696,726</u>
Total Assets	<u>19,033,079</u>	<u>17,967,585</u>
Current liabilities	1,372,366	1,238,004
Long-term debt outstanding	<u>5,233,663</u>	<u>5,505,186</u>
Total Liabilities	<u>6,606,029</u>	<u>6,743,190</u>
Net Assets:		
Invested in capital assets, net of related debt	6,075,757	5,954,030
Restricted	2,717,031	2,247,674
Unrestricted	<u>3,634,262</u>	<u>3,022,691</u>
Total Net Assets	<u>\$ 12,427,050</u>	<u>11,224,395</u>

The following is a significant current year transaction that had an impact on the Statement of Net Assets during the year ending June 30, 2005.

- Long-term debt principal of \$262,657 was retired.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2005, were \$19,285,153. This represents an increase of \$908,871, or 5%, from the prior year. The total cost of all programs and services was \$18,094,836. This represents an increase of \$757,422, or 4%, from the prior year. The following table presents a summary of the changes in net assets for the fiscal year ended:

	<u>June 30,</u> <u>2005</u>	<u>June 30,</u> <u>2004</u>
Revenues:		
Program revenues	\$ 4,041,596	4,351,624
General revenues	<u>15,243,557</u>	<u>14,024,658</u>
Total Revenues	<u>19,285,153</u>	<u>18,376,282</u>
Expenses:		
Instruction	11,856,370	11,316,180
Support services	4,614,416	4,434,669
Non-instructional	1,347,796	1,328,126
Sixteenth section	34,471	25,530
Interest and other expenses on long-term liabilities	240,584	232,909
Other debt service	<u>1,199</u>	<u>-</u>
Total Expenses	<u>18,094,836</u>	<u>17,337,414</u>
Increase in Net Assets	<u>\$ 1,190,317</u>	<u>1,038,868</u>

Governmental activities. The following table presents the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section interest, interest and other expenses on long-term liabilities for the years ending June 30, 2005 and June 30, 2004. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and District's taxpayers by each of these functions.

	<u>Total Expenses</u>		<u>Total Net (Expense) Revenue</u>	
	<u>June 30,</u> <u>2005</u>	<u>June 30,</u> <u>2004</u>	<u>June 30,</u> <u>2005</u>	<u>June 30,</u> <u>2004</u>
Instruction	\$ 11,856,370	11,316,180	(9,906,346)	(8,771,807)
Support services	4,614,416	4,434,669	(3,914,257)	(4,005,681)
Non-instructional	1,347,796	1,328,126	(9,048)	49,958
Sixteenth section	34,471	25,530	18,194	(25,351)
Interest on long-term liabilities	240,584	232,909	(240,584)	(232,909)
Other debt service	<u>1,199</u>	<u>-</u>	<u>(1,199)</u>	<u>-</u>
Total Expenses	<u>\$ 18,094,836</u>	<u>17,337,414</u>	<u>(14,053,240)</u>	<u>(12,985,790)</u>

- Net cost of governmental activities (\$14,053,240) was financed by general revenue, which is made up of primarily property taxes (\$2,068,810), state revenue (\$11,589,618) federal revenue (\$1,135,429).
- Investment earnings accounted for \$77,253 of funding.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$6,568,734, an increase of \$1,161,626, which consisted of net change in fund balance of \$1,161,978 and a prior period adjustment of (\$352), due to ongoing revenues increasing at a greater rate than ongoing expenses during the fiscal year. \$6,536,446 or 99.5% 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 \$32,288 or .5% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$673,963. The increase was a result of total revenues outpacing total expenses. The fund balance of the Sixteenth Section Interest Fund increased \$332,960 during the year. The only other major fund, Title I Part A Basic, had no remaining fund balance for the year ending June 30, 2005. The fund balance of Other Governmental Funds increased by \$155,055 due primarily to operating transfers in.

BUDGETARY HIGHLIGHTS

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

- General Fund expenditures of the District on the comparison of final budget to actual expenditures were considerably less due to the District's on going effort to control cost.
- Title I Fund revenues of the District were less than the final and original budget due to less than expected revenues, expenditures were reduced accordingly.

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 \$17,820,778, including school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$199,791 from the previous year. Total accumulated depreciation as of June 30, 2005 was \$6,327,022 and total depreciation expense for the year was \$521,584 resulting in total net assets of \$11,493,756.

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

Debt Administration. At June 30, 2005, the District had \$5,567,226 in general obligation bonds and other long-term debt outstanding, of which \$333,563 is due within one year. The district retired \$324,697 of long-term debt during the year ended June 30, 2005.

The District maintains an AA- bond rating.

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

CURRENT ISSUES

The Neshoba County 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 remained at 30.32 mills for the year ending June 30, 2005, and will remain at 30.32 mills for the year ending June 30, 2005. In addition, the District's system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

The District has experienced steady growth over the past five years. Latest enrollment figures indicate that student enrollment in the District will remain relatively steady next year. The budget for the next fiscal year has taken this into account 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 Neshoba County School District, P. O. Drawer 388, Philadelphia, MS 39350.

NESHOPA COUNTY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2005

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
Assets	
Cash and cash equivalents (Note 2)	\$ 6,556,040
Due from other governments	492,049
Lease receivable, net	5,602
Inventories and prepaid items	32,288
Restricted assets	453,344
Capital assets, net (Note 4)	<u>11,493,756</u>
 Total Assets	 \$ <u><u>19,033,079</u></u>
Liabilities	
Accounts payable and accrued liabilities	\$ 942,593
Deferred revenue	27,996
Interest payable on long-term liabilities	68,214
Long-term liabilities, due within one year (Note 5)	
Capital related liabilities	333,563
Long-term liabilities, due beyond one year (Note 5)	
Capital related liabilities	5,084,436
Non-capital related liabilities	<u>149,227</u>
 Total Liabilities	 \$ <u><u>6,606,029</u></u>
Net Assets	
Investment in capital assets, net of related debt	\$ 6,075,757
Restricted net assets:	
Expendable:	
School - based activities	1,983,336
Debt service	542,657
Forestry improvements	117,195
Unemployment benefits	51,791
Non-expendable:	
Sixteenth section	22,052
Unrestricted	<u>3,634,262</u>
 Total Net Assets	 \$ <u><u>12,427,050</u></u>

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

NESHOBA COUNTY SCHOOL DISTRICT
 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 Assets
					Primary Governmental Activities
Primary Government:					
Governmental Activities:					
Instruction	\$ 11,856,370	207,699	1,742,325		(9,906,346)
Support services	4,614,416		700,159		(3,914,257)
Non-instructional	1,347,796	454,035	884,713		(9,048)
Sixteenth section	34,471	52,665			18,194
Interest and other expenses on long-term liabilities	240,584			-	(240,584)
Other debt service	1,199				(1,199)
Total governmental activities	\$ 18,094,836	714,399	3,327,197	-	(14,053,240)

General Revenues:

Taxes:	
General purpose levies	\$ 2,068,810
Debt purpose levies	
Unrestricted grants and contributions:	
State	11,589,618
Federal	1,135,429
Unrestricted investment earnings	77,253
Sixteenth section sources	355,006
Other	17,441
Total General Revenues	15,243,557
Total General Revenues, Special Items	
Extraordinary	
Items and Transfers	15,243,557
Change in Net Assets	1,190,317
Net Assets - Beginning	11,224,395
Prior Period Adjustment	(12,338)
Net Assets - Beginning - Restated	11,236,733
Net Assets - Ending	\$ 12,427,050

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

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

	Major Funds				
	General Fund	Title I -Part A Basic FY 2005 Fund	Sixteenth Section Interest Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents (Note 2)	\$ 4,193,906	34,609	1,447,732	901,845	6,578,092
Cash with fiscal agents (Note 2)				431,292	431,292
Due from other governments	168,906			323,143	492,049
Lease receivable, net			5,602		5,602
Due from other funds (Note 3)	147,849				147,849
Inventories and prepaid items				32,288	32,288
Total Assets	\$ 4,510,661	34,609	1,453,334	1,688,568	7,687,172
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	\$ 727,172	26,940	21,260	167,221	942,593
Due to other funds (Note 3)				147,849	147,849
Deferred revenue		7,669		20,327	27,996
Total Liabilities	727,172	34,609	21,260	335,397	1,118,438
Fund Balances:					
Reserved for:					
Inventory				32,288	32,288
Unreserved:					
Undesignated, reported in:					
General fund	3,783,489				3,783,489
Special Revenue funds				687,960	687,960
Debt Service funds				610,871	610,871
Permanent funds			1,432,074	22,052	1,454,126
Total Fund Balances	3,783,489		1,432,074	1,353,171	6,568,734
Total Liabilities and Fund Balances	\$ 4,510,661	34,609	1,453,334	1,688,568	7,687,172

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

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

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 6,568,734
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets are used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$11,321,952	11,493,756
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds (Note 5)	(5,567,226)
3. Accrued interest payable is not due and payable in the current period and therefore are not reported in the funds	<u>(68,214)</u>
Total Net Assets - Governmental Activities	\$ <u><u>12,427,050</u></u>

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

Major Funds	Title I - Part A				Total Governmental Funds
	General Fund	Basic FY 2004 Fund	Sixteenth Section Interest Fund	Other Governmental Funds	
Revenues:					
Local sources	2,392,601			505,506	2,898,107
State sources	11,118,902			855,584	11,974,486
Federal sources	1,153,299	941,409	367,513	2,029,816	4,124,524
Sixteenth section sources		941,409	367,513	53,745	421,258
Total Revenues	14,664,802	941,409	367,513	3,444,651	19,418,375
Expenditures:					
Instruction	9,395,064	679,304		1,539,490	11,613,858
Support services	4,017,065	162,485		537,673	4,717,223
Noninstructional services		81,050		1,238,048	1,319,098
Sixteenth section			22,277	12,194	34,471
Facilities acquisition and construction	13,352				13,352
Debt service:					
Principal	11,073			313,624	324,697
Interest				234,231	234,231
Other				1,199	1,199
Total Expenditures	13,436,554	922,839	22,277	3,876,459	18,258,129
Excess (Deficiency) of Revenues Over Expenditures	1,228,248	18,570	345,236	(431,808)	1,160,246
Other Financing Sources (Uses):					
Sale of transportation equipment	1,732				1,732
Operating transfers in	1,390,967			587,943	1,978,910
Other financing sources				58,500	58,500
Operating transfers out	(1,946,984)	(18,570)	(12,276)	(1,080)	(1,978,910)
Other financing uses	(554,285)	(18,570)	(12,276)	(58,500)	(58,500)
Total Other Financing Sources (Uses)	673,963	0	332,960	586,863	1,732
Net Change in Fund Balances	673,963	0	332,960	155,055	1,161,978
Fund Balances:					
July 1, 2004	3,109,878		1,099,114	1,210,421	5,419,413
Prior period adjustments	(352)				(352)
July 1, 2004, as restated	3,109,526	0	1,099,114	1,210,421	5,419,061
Increase (decrease) in reserve for inventory				(12,305)	(12,305)
June 30, 2005	3,783,489	0	1,432,074	1,353,171	6,568,734

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

NESHOBA 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

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ 1,161,978
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 \$440,878 and the depreciation expense amounted to \$521,584. (Note 4)	(80,706)
2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of activity. (Note 5)	324,697
3. In the statement of activities, only gains and losses from the sale of capital assets are reported, whereas in governmental funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by the following item:	
Losses on sales of capital assets	(133,222)
Proceeds from sales of capital assets	(1,732)
4. Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the statement of activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net assets differs from the change in fund balances by a combination of the following items:	
Increase in accrued compensated absences	(62,040)
Increase in accrued interest on bonds	(6,353)
5. Decrease in inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are increased in the Statement of Activities.	(12,305)
Change in Net Assets of Governmental Activities	\$ <u>1,190,317</u>

NESHOPA COUNTY SCHOOL DISTRICT
Statement of Fiduciary Net Assets
June 30, 2005

	<u>Private- Purpose Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash and cash equivalents (Note 3)	\$ <u>39,859</u>	<u>122,139</u>
Total Assets	\$ <u><u>39,859</u></u>	<u><u>122,139</u></u>
Liabilities		
Accounts payable and accrued liabilities	\$	1,798
Due to student clubs	<u> </u>	<u>120,341</u>
Total Liabilities	\$ <u><u> </u></u>	<u><u>122,139</u></u>
Net Assets		
Reserved for endowments		
Held in trust	\$ <u>39,859</u>	
Total Net Assets	\$ <u><u>39,859</u></u>	

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

**NESHOBA COUNTY SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets
For the year ended June 30, 2005**

	<u>Private-Purpose Trust Funds</u>
Additions	
Interest on investments	\$ 236
Contributions and donations from private sources	<u>20,000</u>
Total Additions	<u>20,236</u>
Deductions	
Scholarships awarded	<u>0</u>
Total Deductions	<u>0</u>
Change in Net Assets	<u>20,236</u>
Net Assets	
July 1, 2004	<u>19,623</u>
June 30, 2005	<u>\$ 39,859</u>

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

NESHOBA COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2005

(1) **Summary of Significant Accounting Policies.**

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

A. **Financial Reporting Entity.**

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the school district's governing board. As defined by accounting principles generally accepted in the United States of America, the school district is considered a "primary government." The school district is governed by a five-member board which each member 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.

NESHOPA COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2005

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.

C. Measurement Focus and Basis of Accounting.

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

In the fund financial statements, governmental funds and agency funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Property taxes, state appropriations and federal awards associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

The school district reports the following major governmental funds:

General Fund - This is the school district's primary operating fund. It accounts for all financial resources of the school district, except those required to be accounted for in another fund.

Title I, Part A Basic FY 2005 Fund – This is a special revenue fund that is used to ensure proper disbursement of, and accounting for, Title I, Part A revenues received by the District.

Sixteenth Section Interest Fund – This fund accounts for the expendable funds derived from sixteenth section or lieu lands.

NESHOBA COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2005

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 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 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.

NESHOPA COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2005**

F. Cash and Cash Equivalents.

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

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

G. Investments.

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

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

H. Inventories and Prepaid Items.

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

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

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

I. Capital Assets.

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

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

NESHOBA COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2005**

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

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

J. Long-term liabilities.

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

K. Interfund Transactions and Balances.

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

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

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

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.

NESHOBA COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2005

L. Equity Classifications.

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

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

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

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.

NESHOBA COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2005

N. Mississippi Adequate Education Program Revenues.

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

O. Compensated Absences.

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

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

(2) Cash and Cash Equivalents and Cash with Fiscal Agents.

Cash and Cash Equivalents.

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

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$6,578,092 and \$161,998, respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and cash equivalents \$6,556,040 and Restricted Assets \$453,344. The Restricted Assets represents the cash balance of sixteenth section principal funds (permanent funds) in the amount of \$22,052 MAEP funds (other governmental funds) in the amount of \$431,292 which are legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$8,405,649.

Cash with Fiscal Agents.

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$431,292.

NESHOBA COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2005**

(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>
General Fund	\$ 147,849	
Other governmental funds	_____	147,849
Total Funds	\$ <u>147,849</u>	<u>147,849</u>

B. Transfers In/Out:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 1,390,967	1,946,984
Title I, Part A Basic		18,570
Sixteenth section interest fund		12,276
Other governmental funds	_____587,943	_____1,080
Total Funds	\$ <u>1,978,910</u>	<u>1,978,910</u>

(4) Capital Assets.

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

	<u>Balance 7-1-2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	<u>Balance 6-30-2005</u>
<u>Non-depreciable capital assets:</u>					
Land	\$ 171,804				171,804
Total non-depreciable capital assets	<u>171,804</u>		<u>-</u>	<u>-</u>	<u>171,804</u>
<u>Depreciable capital assets:</u>					
Buildings	11,962,266				11,962,266
Improvements other than buildings	2,414,472	25,600			2,440,072
Mobile equipment	2,508,109	395,745	(103,202)		2,800,652
Furniture and equipment	564,336	19,533	(137,885)		445,984
Total depreciable capital assets	<u>17,449,183</u>	<u>440,878</u>	<u>(241,087)</u>		<u>17,648,974</u>

NESHOBA COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2005**

	Balance 7-1-2004	Additions	Retirements	Adjustments	Balance 6-30-2005
<u>Less accumulated depreciation for:</u>					
Buildings	\$ 3,569,788	216,052			3,785,840
Improvements other than buildings	420,038	93,308			513,346
Mobile equipment	1,545,843	178,309	(92,882)	(12,690)	1,618,580
Furniture and equipment	388,592	33,915	(13,251)		409,256
Total accumulated depreciation	<u>5,924,261</u>	<u>521,584</u>	<u>(106,133)</u>	<u>12,690</u>	<u>6,327,022</u>
Total depreciable capital assets, net	<u>11,524,922</u>	<u>(80,706)</u>	<u>(134,954)</u>	<u>12,690</u>	<u>11,321,952</u>
Governmental activities capital assets, net	<u>\$ 11,696,726</u>	<u>(80,706)</u>	<u>(134,954)</u>	<u>12,690</u>	<u>11,493,756</u>

Adjustments - consist of excess depreciation taken on assets in prior year.

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 219,237
Support services	278,669
Non-instructional	23,678
Total Depreciation Expense	<u>\$ 521,584</u>

(5) Long-term liabilities.

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

	Balance 7-1-2004	Additions	Reductions	Adjustments	Balance 6-30-2005	Amounts due within one year
A. Limited obligation school notes	\$ 315,000		75,000		240,000	75,000
B. Limited obligation bonds payable	3,480,000		165,000		3,315,000	170,000
C. Obligations under energy efficiency lease	885,489		53,427		832,062	56,216
D. Qualified Zone Academy bonds payable	800,000				800,000	
E. Other loans payable	262,207		31,270		230,937	32,347
F. Compensated absences payable	87,187	62,040			149,227	
Total	<u>\$ 5,829,883</u>	<u>62,040</u>	<u>324,697</u>	<u>-</u>	<u>5,567,226</u>	<u>333,563</u>

NESHOBA COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2005**

- A. Limited obligation school note.
Limited obligation notes 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
Limited obligation					
School note	Varies	4-1-98	4-1-08	\$ 1,135,000	240,000
Total				<u>\$ 1,135,000</u>	<u>240,000</u>

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

Year Ending June 30	Principal	Interest	Total
2006	\$ 75,000	11,256	86,256
2007	80,000	7,739	87,739
2008	85,000	3,986	88,986
Total	<u>\$ 240,000</u>	<u>22,981</u>	<u>262,981</u>

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 the MAEP Long-term Pledge fund.

- B. 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	Varies	2-1-98	2-1-18	\$ 4,285,000	3,315,000
Total				<u>\$ 4,285,000</u>	<u>3,315,000</u>

NESHOPA COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2005**

Year Ending June 30	Principal	Interest	Total
2006	\$ 170,000	152,210	322,210
2007	180,000	142,495	322,495
2008	190,000	132,135	322,135
2009	195,000	121,355	316,355
2010	205,000	111,385	316,385
2011 – 2015	1,190,000	405,676	1,595,676
2016 – 2018	1,185,000	103,051	1,288,051
Total	\$ 3,315,000	1,168,307	4,483,307

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 the MAEP Paying Agent fund.

- C. Obligations under energy efficiency lease.
The following is a schedule by years of the total payments due on this debt:

Year Ending June 30	Principal	Interest	Total
2006	\$ 56,216	41,133	97,349
2007	59,151	38,198	97,349
2008	62,239	35,110	97,349
2009	65,489	31,861	97,350
2010	68,908	28,441	97,349
2011 - 2015	402,411	84,335	486,746
2016	117,648	4,039	121,687
Total	\$ 832,062	263,117	1,095,179

NESHOBA COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2005**

An energy efficiency lease agreement dated September 25, 2001, was executed by and between the district, the lessee, and Trustmark National Bank, the lessor.

The agreement authorized the borrowing of \$1,000,000 for the purchase of energy efficiency equipment, machinery, supplies building modifications and other energy saving items. Payments of the lease shall be made from the Energy Efficiency Lease Fund and not exceed fifteen (15) years.

The district entered into this energy efficiency lease agreement under the authority of Section 31-7-14, Miss. Code Ann. (1972).

Upon written notice to the lessor, the lessee has the option of repaying the total amount due as set forth by the agreement.

This debt will be retired from the Energy Efficiency Lease Fund.

D. Qualified zone academy bonds payable.

As more fully explained in Note 10, debt has been issued by the school district that qualifies as Qualified Zone Academy bonds. Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Qualified Zone Academy bond	0.00%	5-15-01	5-15-11	\$ 800,000	800,000
Total				\$ <u>800,000</u>	<u>800,000</u>

This debt will be retired from the QZAB Bond Retirement Fund.

E. Other loans payable.

The school district has issued debt instruments granted under the authority of Sections 37-59-101, Miss. Code Ann. (1972).

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Note payable Citizens Bank (Blount Bldg. note)	5.2%	4-3-02	4-10-12	\$ 230,350	170,034
Asbestos abatement loan payable	0.00%	4-19-91	5-31-10	83,049	60,903
Total				\$ <u>313,399</u>	<u>230,937</u>

NESHOBA COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2005**

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

Year Ending June 30	Principal	Interest	Total
2006	\$ 32,347	8,352	40,699
2007	33,482	7,217	40,699
2008	34,677	6,022	40,699
2009	35,936	4,763	40,699
2010	37,262	3,437	40,699
2011 - 2012	57,233	2,619	59,852
Total	\$ 230,937	32,410	263,347

This debt will be retired from the Blount Building fund and the District Maintenance fund.

F. Compensated absences payable.

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

(6) Defined Benefit Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2005, 2004 and 2003 were \$1,023,254, \$962,375, and \$897,497, respectively, which equaled the required contributions for each year.

NESHOBA COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2005**

(7) Other Commitments.

The school district has several operating leases for the following:

1. Toshiba E-Studio 35 Copier
2. Risograph RN2000 Digital Duplicator
3. Toshiba 35 CPM Digital Copier System
4. Toshiba E-35 Copier
5. 2004 Chevy Impala 4-Door

Lease expenditures for the year ended June 30, 2005, amounted to \$8,306. Future lease payments for these leases are as follows:

Year Ending June 30	Amount
2005	\$ 9,405
2006	6,983
2007	3,981
Total	<u>\$ 20,369</u>

(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	\$ 61,598
2007	60,963
2008	59,571
2009	48,230
2010	42,674
2011 – 2015	179,875
2016 – 2020	176,754
2021 – 2025	176,754
2026 – 2030	144,699
Thereafter	275,104
Total	<u>\$ 1,226,222</u>

NESHOBA COUNTY SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2005**

(9) 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 Public Entity Workers' Compensation Trust (MPEWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust 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 MPEWCT contributes quarterly to a fund held in trust. The funds in the trust account are used to pay any claim up to \$350,000. For a claim exceeding \$350,000, MPEWCT has insurance which will pay the excess up to \$1,000,000. If total claims during a year were to deplete the trust account, then the pool members would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

(10) Qualified Zone Academy Bonds.

Section 226 of the Taxpayer Relief Act of 1997 (Public Law 105-34) provides for a source of capital at no or nominal interest rates for costs incurred by certain public schools in connection with the establishment of special academic programs from kindergarten through secondary school, in partnership with the business community. The school district, in agreement with Weyerhaeuser, Mid South Insurance Company and Neshoba Education Foundation, has entered into such an arrangement dated May 15, 2001.

In this arrangement, each partner agreed to contribute to the district in the form of a grant on July 1, 2001, for the benefit of the Qualified Zone Academy. The partners, Weyerhaeuser, Mid South Insurance and Neshoba Education Foundation, made contributions in the amount of \$60,000, \$10,000, and \$12,000, respectively.

This agreement establishes a method of repayment for a qualified interest-free debt instrument. The agreement requires the school district to deposit funds annually into a sinking fund account on or before May 15. The amount accumulated in the sinking fund at the end of the ten-year period will be sufficient to retire the debt. The following schedule reports the yearly deposits to be made to the sinking fund by the school district.

NESHOBA COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2005

<u>Year Ending</u> <u>June 30</u>	<u>Amount</u>
2006	\$ 58,000
2007	58,000
2008	58,000
2009	58,000
2010	50,000
2011 – 2014	<u>49,000</u>
Total	\$ <u><u>331,000</u></u>

NESHOBA COUNTY SCHOOL DISTRICT

REQUIRED SUPPLEMENTAL INFORMATION

NESHOBA 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	\$ 2,392,582	2,392,582	2,392,601	0	19
State sources	11,118,902	11,118,902	11,118,902	0	0
Federal sources	1,153,298	1,153,298	1,153,299	0	1
Total Revenues	<u>14,664,782</u>	<u>14,664,782</u>	<u>14,664,802</u>	<u>0</u>	<u>20</u>
Expenditures:					
Instruction	9,935,175	9,935,175	9,395,064	0	540,111
Support services	4,784,209	4,784,239	4,017,065	(30)	767,174
Noninstructional services	2,071	2,071		0	2,071
Facilities acquisition and construction	50,187	50,187	13,352	0	36,835
Debt service:					
Principal	12,000	12,000	11,073		927
Total Expenditures	<u>14,783,642</u>	<u>14,783,672</u>	<u>13,436,554</u>	<u>(30)</u>	<u>1,347,118</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(118,860)</u>	<u>(118,890)</u>	<u>1,228,248</u>	<u>(30)</u>	<u>1,347,138</u>
Other Financing Sources (Uses):					
Sale of transportation equipment	2,736	2,736	2,737	0	1
Operating transfers in	1,390,967	1,390,967	1,390,967	0	0
Operating transfers out	(1,946,984)	(1,946,984)	(1,946,984)	0	0
Other financing uses	(1,006)	(1,006)	(1,005)	0	1
Total Other Financing Sources (Uses)	<u>(554,287)</u>	<u>(554,287)</u>	<u>(554,285)</u>	<u>0</u>	<u>2</u>
Net Change in Fund Balances	<u>(673,147)</u>	<u>(673,177)</u>	<u>673,963</u>	<u>(30)</u>	<u>1,347,140</u>
Fund Balances:					
July 1, 2004	<u>3,109,526</u>	<u>3,109,526</u>	<u>3,109,526</u>	<u>0</u>	<u>0</u>
June 30, 2005	<u>\$ 2,436,379</u>	<u>2,436,349</u>	<u>3,783,489</u>	<u>(30)</u>	<u>1,347,140</u>

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

NESHOBA COUNTY SCHOOL DISTRICT
Budgetary Comparison Schedule
Title I - Part A Basic FY 2005 Fund
For the Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variances Positive (Negative)</u>	
	<u>Original</u>	<u>Final</u>		<u>Original to Final</u>	<u>Final to Actual</u>
Revenues:					
Federal sources	\$ 1,081,494	1,084,814	941,409	3,320	(143,405)
Total Revenues	<u>1,081,494</u>	<u>1,084,814</u>	<u>941,409</u>	<u>3,320</u>	<u>(143,405)</u>
Expenditures:					
Instruction	672,484	743,265	679,304	(70,781)	63,961
Support services	285,482	227,318	162,485	58,164	64,833
Noninstructional services	116,528	95,661	81,050	20,867	14,611
Total Expenditures	<u>1,074,494</u>	<u>1,066,244</u>	<u>922,839</u>	<u>8,250</u>	<u>143,405</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>7,000</u>	<u>18,570</u>	<u>18,570</u>	<u>11,570</u>	<u>-</u>
Other Financing Sources (Uses):					
Operating transfers out	(7,000)	(18,570)	(18,570)	(11,570)	0
Total Other Financing Sources (Uses)	<u>(7,000)</u>	<u>(18,570)</u>	<u>(18,570)</u>	<u>(11,570)</u>	<u>0</u>
Net Change in Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:					
July 1, 2004	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
June 30, 2005	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

NESHOBA COUNTY SCHOOL DISTRICT
Budgetary Comparison Schedule
Sixteenth Section Interest Fund
For the Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>(GAAP Basis)</u>	<u>Variances</u> <u>Positive</u> <u>(Negative)</u>	
	<u>Original</u>	<u>Final</u>		<u>Original</u> <u>to Final</u>	<u>Final</u> <u>to Actual</u>
Revenues:					
Sixteenth section sources	\$ 47,300	370,506	367,513	323,206	(2,993)
Total Revenues	<u>47,300</u>	<u>370,506</u>	<u>367,513</u>	<u>323,206</u>	<u>(2,993)</u>
Expenditures:					
Sixteenth section	15,000	26,300	22,277	(11,300)	4,023
Total Expenditures	<u>15,000</u>	<u>26,300</u>	<u>22,277</u>	<u>(11,300)</u>	<u>4,023</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>32,300</u>	<u>344,206</u>	<u>345,236</u>	<u>311,906</u>	<u>1,030</u>
Other Financing Sources (Uses):					
Operating transfers out	0	(12,276)	(12,276)	(12,276)	0
Total Other Financing Sources (Uses)	<u>0</u>	<u>(12,276)</u>	<u>(12,276)</u>	<u>(12,276)</u>	<u>0</u>
Net Change in Fund Balances	<u>32,300</u>	<u>331,930</u>	<u>332,960</u>	<u>299,630</u>	<u>1,030</u>
Fund Balances:					
July 1, 2004	<u>1,099,114</u>	<u>1,099,114</u>	<u>1,099,114</u>	<u>0</u>	<u>0</u>
June 30, 2005	<u>\$ 1,131,414</u>	<u>1,431,044</u>	<u>1,432,074</u>	<u>299,630</u>	<u>1,030</u>

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

NESHOPA COUNTY SCHOOL DISTRICT

Notes to Required Supplementary Information
For the Year Ended June 30, 2004

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.

NESHOBA COUNTY SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

NESHOBA 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 No.	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Direct Program:		
Distance learning and telemedicine loans and grants	10.855	\$ 46,768
Total		<u>46,768</u>
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food distribution	10.550	63,167
Child Nutrition cluster:		
School breakfast program	10.553	156,865
National school lunch program	10.555	585,106
Total child nutrition cluster		<u>741,971</u>
Total U.S. Department of Agriculture		<u>851,906</u>
<u>U.S. Department of Defense</u>		
Direct Program:		
Reserve Officers' Training Corps	12.XXX	126,805
Total U.S. Department of Defense		<u>126,805</u>
<u>U.S. Department of Education</u>		
Direct Programs:		
Impact Aid	84.041	882,670
Bilingual education - program development and implementation grants	84.288	79,846
Total		<u>962,516</u>
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	941,409
Vocational Education - basic grants to states	84.048	22,457
Indian education - grants to local educational agencies	84.158A	37,704
Safe and drug-free schools and communities - state grants	84.186	27,013
Even start - state educational agencies	84.213	15,908
Innovative education program strategies	84.298	14,290
Education technology state grants	84.318	27,899
Rural education achievement program	84.358	143,698
Improving teacher quality - state grants	84.367	257,818
Total		<u>1,488,196</u>
Special Education cluster:		
Special Education - grants to states	84.027	495,418
Special Education - preschool grants	84.173	24,201
Total		<u>519,619</u>
Total passed-through Mississippi Department of Education		<u>2,007,815</u>
Total U.S. Department of Education		<u>2,970,331</u>
Total for All Federal Awards		\$ <u>3,949,042</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.

**NESHOBA 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>Instructure</u>	<u>Administrative</u>	<u>Other</u>
Salaries and fringe benefits	\$ 14,002,775	10,343,794	1,278,580	2,380,401
Other	<u>4,255,354</u>	<u>1,270,063</u>	<u>239,507</u>	<u>2,745,784</u>
Total	\$ <u>18,258,129</u>	<u>11,613,857</u>	<u>1,518,087</u>	<u>5,126,185</u>
Total number of students	2,783			
Cost per student	\$ <u>6,511</u>	4,173	546	1,842

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

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

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



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

February 14, 2006

Superintendent and School Board
Neshoba County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Neshoba County School District as of and for the year ended June 30, 2005, and have issued our report thereon dated February 14, 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 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 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*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the school district in a separate letter dated February 14, 2006, which is included in this report.

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.

Philadelphia, Mississippi

Watkins Ward and Stafford PLLC



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

February 14, 2006

Superintendent and School Board
Neshoba County School District

Compliance

We have audited the compliance of the Neshoba County School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The school district's major federal programs are identified in the summary of auditors' results section of the Schedule of Finding 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 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, Neshoba 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 Neshoba 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 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.

Philadelphia, Mississippi

Watkins Ward and Stafford PLLC



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

February 14, 2006

Superintendent and School Board
Neshoba County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Neshoba County School District as of and for the year ended June 30, 2005, and have issued our report thereon dated February 14, 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 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 noncompliance is reported in finding number 1 below. The district reported \$162,227 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 instance of noncompliance with other state laws and regulations. Our findings and recommendation and your response are as follows:

1. Finding:

During inspection of the sixteenth section lease ledger, instances were noted where payments of leases were more than 60 days late.

Recommendation:

The district should comply with Section 29-3-57, Miss. Code Ann. (1972), which requires "the superintendent of education shall keep a current docket as to the expiration date of all leases on sixteenth section land; likewise, he shall keep a correct current docket upon the existing leases or any extensions thereof as to the amounts and time of payment of rentals provided for by such lease. It shall be the duty of the superintendent to collect investments of sixteenth section funds. Upon a sixty (60) day default in payment of any rental according to the terms of such lease, the lease shall be declared terminated unless the board of education finds extenuating circumstances were present, and the board shall inaugurate the proper legal proceedings to terminate such lease."

School District's Response:

Beginning February 2006, the Neshoba County School District shall comply with Section 29-3-57, Miss. Code Ann. (1972), which addresses sixteenth section leases and termination of unpaid leases.

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

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

Philadelphia, Mississippi

Watkins Ward and Stafford PLLC

NESHOPA COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

Section 1: Summary of Auditors' Results

Financial Statements:

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

Federal Awards:

- | | | |
|----|---|-------------|
| 4. | Type of auditors' report issued on compliance for major federal programs: | Unqualified |
| 5. | Internal control over major programs: | |
| a. | Material weakness(es) identified? | No |
| b. | Reportable 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. | Impact Aid
CFDA #84.041 | |
| b. | Child nutrition cluster
CFDA #10.553
CFDA #10.555 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | Yes |

NESHOBA COUNTY SCHOOL DISTRICT

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005**

10. Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____ .315(b) of OMB Circular A-133? Yes

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.

NESHOPA COUNTY SCHOOL DISTRICT

V. C. MANNING, Superintendent

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Financial Officer

MRS. SYLVIA MAYO

Accounts Payable/Purchasing Officer

MRS. LISA ALFORD

Business Officer

MRS. KAY COPELAND

Executive Secretary

March 8, 2006

Financial and Compliance Division

As required by Section 315© of OMB Circular A-133, the Neshoba County School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Cost for the year ended June 30, 2004.

Finding 04-1

Corrective Action Plan Details

Susan Reynolds, Financial Officer, 601-656-3752

Banks were notified by telephone and in writing that no outside organization would be allowed to use the Tax ID# of the Neshoba County Schools.

Finding 04-2

Corrective Action Plan Details

Susan Reynolds, Financial Officer, 601-656-3752

- A. Procedures were implemented to assure that there was a receiving date and receiving signature on all records for goods or services received by the school district.
- B. Procedures were implemented to assure individual items and prices were listed on purchase orders.
- C. Procedures were implemented to assure invoices were paid from originals only.
- D. Procedures were implemented to assure purchase orders were issued and dated before invoices.
- E. Procedures were implemented to assure that sales tax is not paid on school district purchases.
- F. Procedures were implemented to assure expenditure transactions did not exceed purchase orders, including a Board Policy concerning price increase change made before merchandise is shipped and a statement typed on the purchase order stating this policy.

- G. Procedures were implemented to assure the district would not pay for double shipped merchandise, but will pay for purchase order amounts only.

Finding 04-3

Corrective Action Plan Details

Susan Reynolds, Financial Officer, 601-656-3752

Procedures were implemented to assure that web transfers made after June 30 would not be used as reconciling items in year end.

Finding 04-4

Corrective Action Plan Details

Susan Reynolds, Financial Officer, 601-656-3752

Procedures were implemented to assure that unaccounted variance (caused by void checks) will be transferred to proper fund before June 30.

Finding 04-5

Corrective Action Plan Details

Susan Reynolds, Financial Officer, 601-656-3752

- A. Procedures were implemented to assure all expenditures are paid from original invoices only.
- B. The district implemented procedures to assure that receiving records contain both a date and signature for goods received.
- C. Procedures were implemented to assure sales tax was not paid on district expenditures.
- D. All purchase orders will list items and prices on purchase orders.
- E. Procedures were implemented to assure that invoices will not exceed purchase order amounts unless increases are authorized by purchasing agent prior to shipping.

Finding 04-6

Corrective Action Plan Details

Susan Reynolds, Financial Officer, 601-656-3752

Procedures were implemented to assure monthly claim reports and daily reconciliations were in agreement.

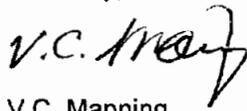
Finding 04-7

Corrective Action Plan Details

Susan Reynolds, Financial Officer, 601-656-3752

- A. Procedures were implemented to assure that individual prices and items are listed on purchase orders.
- B. Procedures were implemented to assure that expenditures, transactions do not exceed the approved amount on the purchase order.

Sincerely,



V.C. Manning
Superintendent of Education
Neshoba County Schools



Susan Reynolds
Financial Officer
Neshoba County Schools

NESHOPA COUNTY SCHOOL DISTRICT

AUDITEE'S CORRECTIVE ACTION PLAN

AND

SUMMARY OF PRIOR AUDIT FINDINGS

NESHOBA COUNTY SCHOOL DISTRICT

Financial & Compliance Audit Division

As required by Section ____,315(b) of OMB Circular A-133, the NESHOBA County School District has prepared and hereby submits the following summary schedule of prior year audit findings as of June 30, 2005:

There are no applicable audit findings, and therefore, no corrective action needed.