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NETTLETON SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

June 30, 2005

M. M. WINKLER & ASSOCIATES
Certified Public Accountants
Tupelo, Mississippi

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

Superintendent and School Board
Nettleton School District

We have audited the accompanying financial statements of the of the governmental activities, each major fund and the aggregate remaining fund information of the Nettleton School District as of and for the year ended June 30, 2005, which collectively comprise the Nettleton School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Nettleton School District's management. Our responsibility is to express an 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 Nettleton 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 17, 2006, on our consideration of the Nettleton School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing 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 9 through 14 and the Budgetary Comparison Schedule and corresponding notes on pages 41 through 43 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Nettleton School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. In addition, the Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds is presented for purposes of additional analysis 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.

M. M. Winkler & Associates

July 17, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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The discussion and analysis of Nettleton 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 review this section in conjunction with the financial statements and notes to the financial statements to enhance their understanding of the School District's financial performance. 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 $ 613,592, which represents a 14.72% increase from fiscal year 2004.
- General revenues account for $ 7,391,894 in revenue, or 77.10% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for $2,195,569 or 22.90% of total revenues.
- The District had $8,973,871 in expenses; only $2,195,569 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of $7,391,894 were adequate to provide for these programs.
- Among major funds, the General Fund had $7,506,869 in revenues and $7,091,324 in expenditures. The General Funds fund balance increased $392,544 over the prior year.
- Capital assets, net of accumulated depreciation, increased by $ 72,064. Depreciation expense for the year was $123,575.
- Long-term debt decreased by $ 116,146. Due primarily to principal payments on general obligation bonds.

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, and interest on long-term liabilities.

The government-wide financial statements can be found on pages 17 - 18 of this report.

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

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

Because the focus of governmental funds is narrower that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 20 and 22, respectively.

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

The basic governmental fund financial statements can be found on pages 19 - 22 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The school district's fiduciary activities are presented in separate Statements of Fiduciary Net Assets on page 23.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25 - 38 of this report.

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund. This required supplementary information can be found on pages 41 - 43 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on page 47 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by $ 4,783,123 as of June 30, 2005.

A large portion of the District's net assets (31.10%) reflects its investment in capital assets (e.g., land, buildings, improvements other than buildings, mobile equipment, furniture and equipment), 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 June 30, 2005 and 2004.

	2005	2004	DOLLAR CHANGE	PERCENT CHANGE
Current Assets	$ 3,429,616	$ 3,085,849	$ 343,767	11.14%
Noncurrent Assets:				
Restricted Assets	80,657	59,145	21,512	36.37%
Capital Assets, net	2,137,335	2,065,271	72,064	3.49%
Total Assets	$ 5,647,608	$ 5,210,265	$ 437,343	8.39%
Current Liabilities	$ 236,618	$ 296,721	$ (60,103)	(20.26%)
Long-term Liabilities	627,867	744,013	(116,146)	(15.61%)
Total Liabilities	$ 864,485	$ 1,040,734	$ (176,249)	(16.94%)
Net Assets:				
Invested in Capital Assets, Net of Related Debt	$ 1,487,335	$ 1,315,271	$ 172,064	13.08%
Restricted	497,659	464,821	32,838	7.06%
Unrestricted	2,798,129	2,389,439	408,690	17.10%
Total Net Assets	$ 4,783,123	$ 4,169,531	$ 613,592	14.72%

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

- The current asset increase of $ 343,767 was due primarily to a cash increase of $ 294,070 as a result of conservative budgeting.
- The principal retirement of $ 100,000 of long-term debt.
- The increase in revenues was due to MAEP increase and Ad Valorem tax increase due to the increase in local contribution as mandated by the state.
- A state mandated 8% salary increase constituted the majority of the 7.12% increase in total expenses. This increase was also given to non-certified employees in the district.

Changes in net assets. The District's total revenues for the fiscal year ended June 20, 2005 were $9,587,463. The total cost of all programs and services was $ 8,973,871. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2005 and 2004.

	2005	2004	DOLLAR CHANGE	PERCENT CHANGE
Program Revenues	$ 2,195,569	$ 2,142,534	$ 53,035	2.48%
General Revenues	7,391,894	7,071,148	320,746	4.54%
Total Revenues	$ 9,587,463	$ 9,213,682	$ 373,781	4.06%
Expenses:				
Instruction	$ 5,782,042	$ 5,426,665	$ 355,377	6.55%
Support Services	2,495,876	2,371,381	124,495	5.25%
Non-instructional	680,216	559,305	120,911	21.62%
Interest on Long-Term Liabilities	15,737	19,693	(3,956)	(20.09%)
Total Expenses	$ 8,973,871	$ 8,377,044	$ 596,827	7.12%
Change in Net Assets	$ 613,592	$ 836,638	$ (223,046)	(26.66%)
Beginning Net Assets	4,169,531	3,299,928	869,603	26.35%
Prior Period Adjustments	-0-	32,965	(32,965)	(100.00%)
Ending Net Assets	$ 4,783,123	$ 4,169,531	$ 613,592	14.72%

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

	2004-2005		2003-2004	
	Total Expenses	Net (Expenses) Revenue	Total Expenses	Net (Expenses) Revenue
Instruction	$ 5,782,042	$ (4,406,222)	$ 5,426,665	$ (4,165,164)
Support services	2,495,876	(2,389,148)	2,371,381	(2,154,716)
Non-instructional	680,216	32,805	559,305	105,063
Interest on long-term liabilities	15,737	(15,737)	19,693	(19,693)
Total Expenses	$ 8,973,871	$ (6,778,302)	$ 8,377,044	$ (6,234,510)

- Net cost of governmental activities ($ 6,778,302), was financed by general revenue, which is made up of primarily property taxes ($ 1,199,454) and state revenue ($ 6,075,571).

- Investment earnings accounted for $ 38,782 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 $ 3,373,655, an increase of $ 425,382. The district budgets very conservatively due to our low tax base and uncertainty of MAEP funding. $ 3,075,930 or 91.18% 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 $ 297,725 or 8.82% is reserved or designated to indicate that it is not available for spending because it has already been committed. The renovation projects that are currently in place will consume approximately $700,000 of the unreserved undesignated fund balance.

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 $ 392,544.

BUDGETARY HIGHLIGHTS

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

- This was due to expenses that were not budgeted, and improvements on campus that were not foreseen at budget time.

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 $ 4,803,360, including school buildings, busses, other school vehicles and furniture and equipment. This amount represents an increase of $ 187,818 from the previous year. Total accumulated depreciation as of June 30, 2005 was $ 2,666,025 and total depreciation expense for the year was $ 123,575, resulting in total net capital assets of $ 2,137,335.

Additional information of the District's capital assets can be found in Note 5 on page 34 of this report.

Debt Administration. At June 30, 2005, the District had $ 727,867 in general obligation bonds and other long-term debt outstanding, of which $ 100,000 is due within one year.

Additional information of the District's long-term debt can be found in Note 6 on pages 35 - 36 of this report.

CURRENT ISSUES

The District is in the process of renovating bathrooms in each building and installing new walkways and canopies on a major portion of the main campus. The funding for these projects was derived from local sources that were approved as building project funds as long-range plans were made for the Nettleton School District.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Nettleton School District, Drawer 409, Nettleton, MS 38858.

FINANCIAL STATEMENTS

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NETTLETON SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2005

	Governmental Activities
ASSETS	
Cash and cash equivalents (Note 3)	$ 3,218,987
Due from other governments	198,693
Inventories and prepaid items	11,936
Restricted assets - Investments	80,657
Capital assets, net (Note 5)	2,137,335
Total Assets	$ 5,647,608
LIABILITIES	
Accounts payable and accrued liabilities	$ 117,805
Deferred revenue	18,813
Long-term liabilities, due within one year (Note 6)	
Capital related liabilities	100,000
Long-term liabilities, due beyond one year (Note 6)	
Capital related liabilities	550,000
Non-capital related liabilities	77,867
Total Liabilities	$ 864,485
NET ASSETS	
Investment in capital assets, net of related debt	$ 1,487,335
Restricted net assets:	
Expendable:	
School - based activities	268,330
Debt service	204,356
Unemployment benefits	24,973
Unrestricted	2,798,129
Total Net Assets	$ 4,783,123

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

NETTLETON SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

Functions / Programs	Expenses	PROGRAM REVENUES: Charges for Services	PROGRAM REVENUES: Operating Grants and Contributions	PROGRAM REVENUES: Capital Grants and Contributions	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS: Governmental Activities
Governmental Activities:					
Instruction	$ 5,782,042	$ 279,681	$ 1,096,139	$ -0-	$ (4,406,222)
Support services	2,495,876	-0-	106,728	-0-	(2,389,148)
Non-instructional	680,216	213,106	499,915	-0-	32,805
Interest on long-term liabilities	15,737	-0-	-0-	-0-	(15,737)
Total governmental activities	$ 8,973,871	$ 492,787	$ 1,702,782	$ -0-	$ (6,778,302)
General Revenues:					
Taxes:					
General purpose levies					$ 1,031,923
Debt purpose levies					167,531
Unrestricted grants and contributions:					
State					6,075,571
Federal					78,166
Unrestricted investment earnings					38,782
Loss on disposal of asset					(79)
Total General Revenues					$ 7,391,894
Change in Net Assets					$ 613,592
Net Assets - Beginning					$ 4,169,531
Net Assets - Ending					$ 4,783,123

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

NETTLETON SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2005

	MAJOR FUNDS				
	General Fund	Twenty-First Century Fund	School Building Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents (Note 3)	$ 995,710	$ 7,887	$ 1,780,000	$ 435,390	$ 3,218,987
Investments (Note 3)	-0-	-0-	-0-	80,657	80,657
Due from other governments	72,373	70,000	-0-	56,320	198,693
Due from other funds (Note 4)	127,565	-0-	-0-	11,448	139,013
Inventories	-0-	-0-	-0-	11,936	11,936
Total Assets	$ 1,195,648	$ 77,887	$ 1,780,000	$ 595,751	$ 3,649,286
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	$ 99,652	$ 7,887	$ -0-	$ 10,266	$ 117,805
Due to other funds (Note 4)	-0-	67,912	-0-	71,101	139,013
Deferred revenue	-0-	2,088	-0-	16,725	18,813
Total Liabilities	$ 99,652	$ 77,887	$ -0-	$ 98,092	$ 275,631
Fund Balances:					
Reserved for:					
Unemployment benefits	$ -0-	$ -0-	$ -0-	$ 24,973	$ 24,973
Ad valorem	56,460	-0-	-0-	-0-	56,460
Inventory	-0-	-0-	-0-	11,936	11,936
Debt service funds	-0-	-0-	-0-	204,356	204,356
Unreserved:					
Designated, reported in:					
Capital project fund, Designated for Capital Expenditures	-0-	-0-	1,780,000	-0-	1,780,000
Undesignated, reported in:					
General fund	1,039,536	-0-	-0-	-0-	1,039,536
Special revenue funds	-0-	-0-	-0-	256,394	256,394
Total Fund Balances	$ 1,095,996	$ -0-	$ 1,780,000	$ 497,659	$ 3,373,655
Total Liabilities and Fund Balances	$ 1,195,648	$ 77,887	$ 1,780,000	$ 595,751	$ 3,649,286

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

NETTLETON SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2005

	Amount
Total Fund Balance - Governmental Funds	$ 3,373,655
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets which are used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of $ 2,666,025. (Note 5)	2,137,335
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (Note 6)	(727,867)
Total Net Assets - Governmental Activities	$ 4,783,123

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

NETTLETON SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2005

	MAJOR FUNDS				
	General Fund	Twenty-First Century Fund	School Building Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Local sources	$ 1,369,177	$ -0-	$ -0-	$ 385,555	$ 1,754,732
State sources	6,059,526	-0-	-0-	368,464	6,427,990
Federal sources	78,166	122,912	-0-	1,203,742	1,404,820
Total Revenues	$ 7,506,869	$ 122,912	$ -0-	$ 1,957,761	$ 9,587,542
EXPENDITURES:					
Instruction	$ 4,781,189	$ 121,712	$ -0-	$ 880,051	$ 5,782,952
Support services	2,186,069	1,200	-0-	300,892	2,488,161
Noninstructional services	9,796	-0-	-0-	648,741	658,537
Facilities acquisition and construction	113,770	-0-	-0-	-0-	113,770
Debt service:					
Principal	-0-	-0-	-0-	100,000	100,000
Interest	-0-	-0-	-0-	14,237	14,237
Other	500	-0-	-0-	1,000	1,500
Total Expenditures	$ 7,091,324	$ 122,912	$ -0-	$ 1,944,921	$ 9,159,157
Excess (Deficiency) of Revenues Over Expenditures	$ 415,545	$ -0-	$ -0-	$ 12,840	$ 428,385
Other Financing Sources (Uses):					
Operating transfers in	$ 25,000	$ -0-	$ -0-	$ 58,428	$ 83,428
Operating transfers out	(48,001)	-0-	-0-	(35,427)	(83,428)
Total Other Financing Sources (Uses)	$ (23,001)	$ -0-	$ -0-	$ 23,001	$ -0-
Net Change in Fund Balances	$ 392,544	$ -0-	$ -0-	$ 35,841	$ 428,385
Fund Balances:					
July 1, 2004	$ 703,452	$ -0-	$ 1,780,000	$ 464,821	$ 2,948,273
(Decrease) in reserve for inventory	-0-	-0-	-0-	(3,003)	(3,003)
June 30, 2005	$ 1,095,996	$ -0-	$ 1,780,000	$ 497,659	$ 3,373,655

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

NETTLETON SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

	Amount
Net Change in Fund Balances - Governmental Funds	$ 428,385
Amounts reported for governmental activities in the statement of activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital asset purchases amounted to $ 195,718 and the depreciation expense amounted to $ 123,575. (Note 5)	72,143
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. (Note 6)	100,000
3. Gains and losses on the sale or disposal of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds, if any.	(79)
4. Governmental funds do not recognize transactions that are not normally paid with expendable available resources. The statement of activities reports expenses and liabilities regardless of when financial resources are available. Compensated absences decreased to $ 77,867. (Note 6)	16,146
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.	(3,003)
Change in Net Assets of Governmental Activities	$ 613,592

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

NETTLETON SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2005

		Agency Funds
ASSETS		
Cash and cash equivalents (Note 3)	$	403,806
Total Assets	$	403,806
LIABILITIES		
Accounts payable and accrued liabilities	$	351,929
Due to student clubs		51,877
Total Liabilities	$	403,806

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

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. FINANCIAL REPORTING ENTITY

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the school district's governing board. As defined by accounting principles generally accepted in the United States of America, the school district is considered an "other stand alone government." The school district is a related organization of, but not a component unit of the city of Nettleton since the governing authority of the city selects a majority of the school district's board but does not have financial accountability for the school district.

B. BASIS OF PRESENTATION

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

Government-wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about the school district as a whole. They include 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 set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category.

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

In the fund financial statements, governmental 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.

Twenty-First Century Fund - This is the school district's fund for accounting for the federal funding of the Twenty-First Century program for the fiscal year.

School Building Fund - This is the school district's fund for monies set aside for capital projects.

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING - Continued

GOVERNMENTAL FUNDS - Continued

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

FIDUCIARY FUNDS

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

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

G. INVESTMENTS - Continued

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

Investments are reported at fair value.

H. INVENTORIES AND PREPAID ITEMS

Donated 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 acquisition and construction are reflected as expenditures in the Governmental Fund statements and the related assets are reported as capital assets in the governmental activities column in the government-wide financial statements.

Capital assets are reported at actual or estimated historical cost 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 schedules 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. See Note 5 for details.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 included liabilities on lease-purchase agreements and other commitments. In the government-wide Statement of Net Assets, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column. See Note 6 for details.

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 4 for details of 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 improvements 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."

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

L. EQUITY CLASSIFICATIONS - Continued

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 unemployment benefits - An account that represents the fund balance of the unemployment compensation revolving fund, which is legally restricted for the payment of unemployment benefits.

Reserved for ad valorem - An account used to record the ad valorem taxes collected in excess of legal limitations for the current fiscal year.

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

Reserved for debt service - An account that represents the fund balance of the Debt Service Funds resources, which are legally restricted for the payment of long-term debt principal and interest amounts maturing in future years.

M. PROPERTY TAXES

Ad valorem property taxes are levied by the governing authorities of the counties 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

O. COMPENSATED ABSENCES

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

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

NOTE 2. CHANGE IN ACCOUNTING STANDARDS

As required, the School District has implemented Government Accounting Standards Board (GASB) Statement No. 40, *Deposits 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.

NOTE 3. CASH, CASH EQUIVALENTS AND INVESTMENTS

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 $ 3,218,987 and $ 403,806, respectively. The carrying amount of deposits reported in the government-wide financial statement is the same as in the governmental funds. The bank balance was $ 4,118,221.

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 Mississippi State Treasurer on behalf of the district. As of June 30, 2005, none of the district's bank balance of $4,118,221 was exposed to custodial credit risk.

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NOTE 3. CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

Investments

As of June 30, 2005, the district had the following investments. All investments are in an internal investment pool.

Investment Type	Maturities (in years)		Fair Value	Rating
US Government Agency Securities	Less than 1	$	80,657	AAA
Total Investments		$	80,657	

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 counterpart, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk. As of June 30, 2005, none of the district's investment balance was exposed to custodial credit risk.

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

Issuer		Fair Value	% of Total Investment
Federal National Mortgage Association Notes - QZAB Fund	$	80,657	100%

NOTE 4. INTERFUND TRANSACTIONS AND BALANCES

The following is a summary of interfund transactions and balances:

A. Due From / To Other Funds

	Due From	Due To
Governmental funds:		
General fund	$ 127,565	$ -0-
Twenty-First Century fund	-0-	67,912
Other governmental funds	11,448	71,101
Total	$ 139,013	$ 139,013

The above due from and due to other funds are for indirect cost and support from the District Maintenance fund until reimbursement is received.

B. Transfers In / Out

	Transfers In	Transfers Out
Governmental funds:		
General fund	$ 25,000	$ 48,001
Other governmental funds	58,428	35,427
Total	$ 83,428	$ 83,428

The above transfers in and out are for indirect cost and to provide for funds operating activities.

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NOTE 5. CAPITAL ASSETS

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

	Balance 7/1/2004	Additions	Retirements	Capitalized Construction	Balance 6/30/2005
Non-depreciable capital assets:					
Land	$ 196,899	$ -0-	$ -0-	$ -0-	$ 196,899
Construction in progress	89,560	113,770	-0-	(203,330)	-0-
Total non-depreciable capital assets	$ 286,459	$ 113,770	$ -0-	$(203,330)	$ 196,899
Depreciable capital assets:					
Buildings	$ 3,123,635	$ -0-	$ -0-	$ -0-	$ 3,123,635
Improvements other than buildings	26,402	-0-	-0-	203,330	229,732
Mobile equipment	969,856	49,850	-0-	-0-	1,019,706
Furniture and equipment	209,190	32,098	7,900	-0-	233,388
Total depreciable capital assets	$ 4,329,083	$ 81,948	$ 7,900	$ 203,330	$ 4,606,461
Less accumulated depreciation:					
Buildings	$ 1,814,711	$ 32,956	$ -0-	$ -0-	$ 1,847,667
Improvements other than buildings	10,561	9,189	-0-	-0-	19,750
Mobile equipment	551,348	67,293	-0-	-0-	618,641
Furniture and equipment	173,651	14,137	7,821	-0-	179,967
Total accumulated depreciation	$ 2,550,271	$ 123,575	$ 7,821	$ -0-	$ 2,666,025
Total depreciable capital assets, net	$ 1,778,812	$(41,627)	$ 79	$ 203,330	$ 1,940,436
Governmental activities capital assets, net	$ 2,065,271	$ 72,143	$ 79	$ -0-	$ 2,137,335

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	$ 27,882
Support services	77,017
Non-instructional	18,676
	$ 123,575

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

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NOTE 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
A. General obligation bonds payable	$ 275,000	$ -0-	$ 100,000	$ 175,000	$ 100,000
B. Qualified zone academy bonds payable	475,000	-0-	-0-	475,000	-0-
C. Compensated absences payable	94,013	-0-	16,146	77,867	-0-
Total	$ 844,013	$ -0-	$ 116,146	$ 727,867	$ 100,000

A. General Obligation Bonds Payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amounts Issued	Amounts Outstanding
1993 refunding bonds	varies	6/1/1993	6/1/2007	$ 955,000	$ 175,000
Total				$ 955,000	$ 175,000

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

Year Ending June 30,	Principal	Interest	Total
2006	100,000	9,138	109,138
2007	75,000	3,938	78,938
Total	$ 175,000	$ 13,076	$ 188,076

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NOTE 6. LONG-TERM LIABILITIES - Continued

A. General Obligation Bonds Payable - Continued

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

B. 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 current outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amounts Issued	Amounts Outstanding
Qualified zone academy bonds	0.00%	7/20/2000	7/20/2010	$ 475,000	$ 475,000
Total				$ 475,000	$ 475,000

This debt will be retired from the QZAB School Note Fund.

C. 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.

NOTE 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.

NOTE 8. DEFINED BENEFIT PENSION PLAN - Continued

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 $ 490,831, $ 466,591 and $ 427,725, respectively, which equaled the required contributions for each year.

NOTE 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 School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of 127 school districts and covers risks of loss arising from injuries to the school district's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by BancorpSouth Bank in Jackson. The funds in the trust account are used to pay any claim up to $ 400,000. For a claim exceeding $ 400,000, MSBAWCT has insurance that will pay the excess up to $ 25,000,000. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for the excess losses incurred by the pool.

NOTE 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 Tennessee Valley Authority (TVA), has entered into such an arrangement dated July 1, 2000.

On June 13, 2000, the Nettleton School District board of trustees adopted a resolution authorizing the issuance of a four hundred and seventy-five thousand dollar ($ 475,000) limited-tax note of the district designating the note to be a qualified zone academy bond (the "note") and awarding the sale of the note to the purchaser. The note resolution also authorized the superintendent, board president and secretary to execute all documents necessary to affect the issuance of the note.

NOTE 10. QUALIFIED ZONE ACADEMY BONDS - Continued

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

Year Ending June 30,	Total
2006	$ 52,200
2007	52,200
2008	52,200
2009	50,000
2010	50,000
2011	50,000
Total	$ 306,600

REQUIRED SUPPLEMENTARY INFORMATION

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NETTLETON SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
For the Year Ended June 30, 2005

	Budgeted Amounts		Actual (GAAP)	Variances Positive (Negative)	
	Original	Final	(Basis)	Original to Final	Final to Actual
Revenues:					
Local sources	$ 1,216,000	$ 1,414,784	$ 1,369,177	$ 198,784	$ (45,607)
State sources	5,761,217	6,084,674	6,059,526	323,457	(25,148)
Federal sources	45,000	47,658	78,166	2,658	30,508
Total Revenues	$ 7,022,217	$ 7,547,116	$ 7,506,869	$ 524,899	$ (40,247)
Expenditures:					
Instruction	$ 4,698,333	$ 4,747,618	$ 4,781,189	$(49,285)	$ (33,571)
Support services	1,979,992	2,224,357	2,186,069	(244,365)	38,288
Noninstructional services	24,900	-0-	9,796	24,900	(9,796)
Facilities acquisition and construction	225,000	123,565	113,770	101,435	9,795
Debt service:					
Principal	17,000	17,400	500	(400)	16,900
Total Expenditures	$ 6,945,225	$ 7,112,940	$ 7,091,324	$(167,715)	$ 21,616
Excess (Deficiency) of Revenues Over Expenditures	$ 76,992	$ 434,176	$ 415,545	$ 357,184	$ (18,631)
Other Financing Sources (Uses):					
Operating transfers in	$ -0-	$ 95,183	$ 25,000	$ 95,183	$ (70,183)
Operating transfers out	-0-	(60,346)	(48,001)	(60,346)	12,345
Total Other Financing Sources (Uses)	$ -0-	$ 34,837	$(23,001)	$ 34,837	$ (57,838)
Net Change in Fund Balances	$ 76,992	$ 469,013	$ 392,544	$ 392,021	$ (76,469)
Fund Balances:					
July 1, 2004	-0-	-0-	703,452	-0-	703,452
June 30, 2005	$ 76,992	$ 469,013	$ 1,095,996	$ 392,021	$ 626,983

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

NETTLETON SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE TWENTY-FIRST CENTURY 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:					
Federal sources	$ -0-	$ 125,000	$ 122,912	$ 125,000	$ (2,088)
Total Revenues	$ -0-	$ 125,000	$ 122,912	$ 125,000	$ (2,088)
Expenditures:					
Instruction	$ -0-	$ 119,062	$ 121,712	$(119,062)	$ (2,650)
Support services	-0-	1,200	1,200	(1,200)	-0-
Total Expenditures	$ -0-	$ 120,262	$ 122,912	$(120,262)	$ (2,650)
Excess (Deficiency) of Revenues Over Expenditures	$ -0-	$ 4,738	$ -0-	$ 4,738	$ (4,738)
Other Financing Sources (Uses):					
Operating transfers in	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-
Operating transfers out	-0-	(2,650)	-0-	(2,650)	2,650
Total Other Financing Sources (Uses)	$ -0-	$(2,650)	$ -0-	$(2,650)	$ 2,650
Net Change in Fund Balances	$ -0-	$ 2,088	$ -0-	$ 2,088	$ (2,088)
Fund Balances:					
July 1, 2004	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-
June 30, 2005	$ 0	$ 2,088	$ -0-	$ 2,088	$ (2,088)

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

Budgetary Comparison Schedule

Note 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.

Note 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.

Note 3: Individual Fund Disclosures

No funds had an excess of expenditures over budget.

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SUPPLEMENTAL INFORMATION

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NETTLETON 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:		
Noncash assistance:		
Food Donation	10.550	$ 33,150
Child Nutrition Cluster:		
School Breakfast Program	10.553	$ 131,764
National School Lunch Program	10.555	421,692
Summer Food Service Program for Children	10.559	12,295
Total Child Nutrition Cluster		$ 565,751
Fresh Fruit & Vegetable Program	10.582	$ 7,136
Total U. S. Department of Agriculture		$ 606,037
Federal Communications Commission		
Administered through the Universal Service Administrative Company		
The Schools and Libraries Program of the Universal Service Fund	32.XXX	$ 17,228
Total Federal Communications Commission		$ 17,228
U. S. Department of Education		
Passed-through Mississippi Department of Education:		
Title I - Grants to Local Educational Agencies	84.010	$ 281,018
Vocational Education - Basic Grants to States	84.048	13,657
Safe and Drug-Free Schools and Communities - State Grants	84.186	7,525
Twenty-First Century Community Learning Centers	84.287	122,912
State Grants for Innovative Programs	84.298	6,976
Rural Education	84.358	6,598
Improving Teacher Quality State Grants	84.367	111,198
Total		$ 549,884
Special Education Cluster:		
Special Education - Grants to States	84.027	$ 261,966
Special Education - Preschool Grants	84.173	14,889
Total Special Education Cluster		$ 276,855
Total Passed-through Mississippi Department of Education		$ 826,739
Total U. S. Department of Education		$ 826,739
Total for all Federal Awards		$ 1,450,004

NETTLETON SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2005

-Continued-

NOTES TO SCHEDULE

Note 1: This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the financial statements.

Note 2: The expenditure amounts include transfers out.

Note 3: The pass-through entities did not assign identifying numbers to the school district.

NETTLETON SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL, ADMINISTRATIVE AND OTHER EXPENDITURES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2005

Expenditures	Total	Instruction	Administrative	Other
Salaries and fringe benefits	$ 6,747,050	$ 4,964,603	$ 660,437	$ 1,122,010
Other	2,412,107	818,349	119,135	1,474,623
Total	$ 9,159,157	$ 5,782,952	$ 779,572	$ 2,596,633
Total number of students	1,365			
Cost per student	$ 6,710	$ 4,237	$ 571	$ 1,902

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

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

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

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

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REPORTS ON COMPLIANCE AND INTERNAL CONTROL

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

Superintendent and School Board
Nettleton School District

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the school district's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion 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 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 that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance or other matters that we have reported to management of the school district in a separate letter dated July 17, 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.

M. M. Winkler & Associates

July 17, 2006

M. M. WINKLER & ASSOCIATES

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

Superintendent and School Board
Nettleton School District

Compliance

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

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

- Continued -

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.

M. M. Winkler & Associates

July 17, 2006

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

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Superintendent and School Board
Nettleton School District

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

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

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

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements disclosed the following immaterial instance of noncompliance with other state laws and regulations. Our finding and recommendation and your response is as follows:

Finding

Section 37-6-15, Miss. Code Ann. (1972), requires each member of the school board to execute a surety bond in the amount of at least $ 50,000. As reported in prior year, Nettleton School District had one board members surety bond expire during the prior fiscal year which was not renewed and a new board member did not execute a surety bond.

Recommendation

We recommend that the school district comply with Section 37-6-15, Miss. Code Ann. (1972).

School District Response

This was corrected in December 2005.

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

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

M. M. Winkler & Associates

July 17, 2006

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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NETTLETON 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:	
	Cluster: Child Nutrition Cluster	
	CFDA#: 10.553; CDFA#: 10.555; CFDA#: 10.559	
	Cluster: Special Education Cluster	
	CFDA#: 84.027; CFDA#: 84.173	
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?	No

- Continued -

Section 2: Financial Statements 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 Awards Findings and Questioned Costs

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