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NEWTON MUNICIPAL SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

NEWTON MUNICIPAL SCHOOL DISTRICT
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2005

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NEWTON MUNICIPAL SCHOOL DISTRICT
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2005

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

Superintendent and School Board
Newton Municipal School District

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Newton Municipal School District, as of June 30, 2005, and the respective changes in financial position, thereof for the year 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 October 28, 2005, on our consideration of the Newton Municipal School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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The Management's Discussion and Analysis on pages 4 through 12 and the Budgetary Comparison Schedule and corresponding notes on pages 36 through 41 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 an opinion on the financial statements that collectively comprise the Newton Municipal School District's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. In addition, the Schedule of Instructional, Administrative and Other Expenditures – Governmental Funds is presented for purposes of additional analysis. 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.

Hoff + Associates

October 28, 2005

NEWTON MUNICIPAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The discussion and analysis of the Newton Municipal 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 $214,975, which represents 3.36% increase from FY2004. General revenues account for $6,583,607 in revenue, or 75.1% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for $2,179,062 or 24.9% of total revenues.

- The District had $8,548,741 in expenses; only $171,996 of these expenses were offset by program specific charges for services, while $2,007,066 in expenses were offset by grants or contributions. General revenues of $6,583,607 were adequate to cover the additional expenses.

- Among major funds, the General Fund had $6,248,641 in revenues and $5,924,845 in expenditures. The General Fund's fund balance increased $ 93,253 over the prior year.

- Capital assets, net of accumulated depreciation, increased by $352,999.

- Long-term debt decreased by $108,196.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

The statement of net assets presents information on all the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years.

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

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

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

OVERVIEW OF FINANCIAL STATEMENTS - (CONTINUED)

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 that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 17 and 19, respectively.

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

The basic governmental fund financial statements can be found on pages 16 - 19 of this report.

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

OVERVIEW OF FINANCIAL STATEMENTS - (CONTINUED)

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21 - 34 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 36 - 40 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on page 43 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 $6,607,771 as of June 30, 2005.

By far the largest portion of the District's net assets (59%) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment, leased property under capital leases and construction in progress), less any related debt used to acquire those assets that 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 restricted net assets of $1,092,253 or 17% for 2005 and $1,431,725 or 22% for 2004 are restricted to expenditures for certain school based activities, debt service, unemployment benefits, and 16th section investment purposes. The remaining portion of the net assets, or unrestricted net assets, is available for school expenditures. 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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS – (CONTINUED)

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

	2005	2004
Current assets	$ 2,842,940	$ 3,133,789
Capital assets, net	6,911,030	6,558,031
Total assets	9,753,970	9,691,820
Current liabilities	224,232	262,178
Lont-term debt outstanding	2,921,967	3,036,846
Total liabilities	3,146,199	3,299,024
Net assets:		
Invested in capital assets, net of related debt	3,929,823	3,468,629
Restricted	1,092,253	1,431,725
Unrestricted	1,585,695	1,492,442
Total net assets	$ 6,607,771	$ 6,392,796

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

- The principal retirement of $108,196 of long-term debt
- The addition of $355,375 in capital assets, primarily from capital leases

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2005 and 2004 were $8,763,716 and $8,657,744, respectively. The total cost of all programs and services was $8,548,741 in 2005 and $8,123,949 in 2004. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2005 and 2004.

	2005	2004
Revenues:		
Program revenues	$ 2,179,062	$ 2,345,191
General revenues	6,583,607	6,312,553
Special revenues	1,047	-
Total revenues	8,763,716	8,657,744
Expenses:		
Instruction	4,664,617	4,395,827
Support services	3,269,459	3,163,234
Non-instructional	524,881	463,381
Interest on long-term liabilities	89,784	101,507
Total expenses	8,548,741	8,123,949
Increase in net assets	$ 214,975	$ 533,795

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (CONTINUED)

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

	2005		2004	
	Total Expenses	Net (Expense) Revenue	Total Expenses	Net (Expense) Revenue
Instruction	$ 4,664,617	$ (3,827,775)	$ 4,395,827	$ (3,731,518)
Support Services	3,269,459	(2,088,338)	3,163,234	(2,122,449)
Non-instructional	524,881	(379,452)	463,381	73,100
Interest on Long-Term Liabilities	89,784	(74,114)	101,507	2,109
Total Expenses	**$ 8,548,741**	**$ (6,369,679)**	**$ 8,123,949**	**$ (5,778,758)**

- Net cost of governmental activities in 2005 of $6,369,679 and in 2004 of $5,778,758 was financed by general revenue, which is made up of primarily property taxes in 2005 and 2004 of $1,866,112 and $1,828,596, respectively, and state revenue of $4,998,653 in 2005 and $4,379,248 in 2004.

- Investment earnings accounted for $28,580 in 2005 and $27,270 in 2004 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 fiscal year's end.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)

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 $2,769,631, a decrease of $249,732 due primarily to an excess of expenditures over revenues in the Other Governmental Funds. Of the fund balance, $2,565,578 or 92.6% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The General Fund reported a fund balance of $1,641,335, or 59.3% of total fund balance. Additional fund balances of $1,121,244 are held by special funds, capital funds and debt service funds and are available to be expended for purposes set forth by the granting authorities, school board discretion or state law. The 16th Section Principal Fund has a balance of $7,052 which can be invested or borrowed against for constructing or renovating facilities or buying school buses.

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 $93,253 a result of revenues that exceeded expenditures. The fund balance of Other Governmental Funds showed a decrease of $384,646.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget. 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 $9,968,009, including school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of $537,179 from the previous year, primarily due to additions from construction. Total accumulated depreciation as of June 30, 2005 was $3,056,979 and total depreciation expense for the year was $219,310, resulting in total net assets of $6,911,030.

Additional information of the District's capital assets can be found in Note 5 on pages 28 through 29 of this report.

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

Newton High School
The high school campus has several newly constructed buildings and renovations including classrooms, laboratories, career services, fine arts building and administrative offices, and the campus is in good working order. The remaining buildings function relatively well but require renovation that would include roofing, interiors including code compliance issues, window replacement and mechanical/electrical. These buildings include two small classroom buildings, the auditorium, the media center, the cafeteria and the gymnasium. The field house eventually needs to be replaced.

Newton Middle School
The middle school has newly renovated laboratories and a new media center, and the corridors have been renovated and accessibility issues have been addressed in most areas. With its improvements, this campus also functions relatively well, but the remaining areas require renovation that would include roofing, interior, including code compliance issues, window replacement and mechanical/electrical.

Newton Elementary School
The elementary school campus is composed of independent buildings with open-air covered connections. The buildings are approximately 20-30 years old and in generally good condition. Two areas of the facility however are of critical concern. The first concerns the electrical service, power distribution, lighting and HVAC systems on the campus and the second is the condition of the site. The site needs renovation to add railings, ADA access ways and correction of drainage problems.

Central Office
The new central office building is now completed as of July 2005.

Debt Administration. At June 30, 2005, the District had $3,036,847 in general obligation bonds and other long-term debt outstanding, of which $114,880 is due within one year.

Additional information of the District's long-term debt can be found in Note 6 on pages 29 through 31 of this report.

CURRENT ISSUES

The Newton Municipal School District has been consistently more financially stable in the past two decades. The District has a fund balance in its District Maintenance Fund of over $1.6 million, which is 18.4% of FY05 revenues. The MS Department of Education and the Office of the State Auditor recommend that districts maintain a fund balance in the District Maintenance Fund that is at least 5% of annual revenues.

Student enrollment in the District was approximately 1,030 students in FY05 and is expected to remain near that figure in FY06 and subsequent years. The budget for the next fiscal year has taken into account this enrollment 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 Newton Municipal School District, P. O. Box 150, Newton, MS 39345.

NEWTON MUNICIPAL SCHOOL DISTRICT

FINANCIAL STATEMENTS

NEWTON MUNICIPAL SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005

EXHIBIT A

	Primary Government Governmental Activities
ASSETS:	
Cash and cash equivalents (Note 2)	$ 2,465,235
Investments	-
Other Receivables	153
Due from Other Governments (Note 3)	213,979
Inventories and prepaid items	36,773
Restricted assets	126,800
Capital assets, net (Note 4)	6,911,030
TOTAL ASSETS	$ 9,753,970
LIABILITIES & FUND BALANCES:	
Liabilities:	
Deferred revenue	$ 73,309
Interest payable on long-term liabilities	36,043
Long-term liabilities (Due within one year) (Note 5)	
Capital related liabilities	114,880
Long-term liabilities (Due beyond one year) (Note 5)	
Capital related liabilities	2,866,327
Non-capital related liabilities	55,640
Total Liabilities	$ 3,146,199
Net Assets:	
Investment in capital assets (net of related debt)	$ 3,929,823
Restricted net assets:	
Expendable:	
School-Based Activities	553,165
Debt Service	341,183
Capital improvements	167,280
Unemployment benefits	23,573
Non-expendable:	
Sixteenth section	7,052
Unrestricted:	1,585,695
TOTAL NET ASSETS	$ 6,607,771

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

NEWTON MUNICIPAL SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

EXHIBIT B

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: Primary Government: Governmental Activities
Primary Government:					
Governmental Activities:					
Instruction	$ 4,664,617	$ 90,806	$ 716,374	$ 29,662	$ (3,827,775)
Support Services	3,269,459	-	1,181,121	-	(2,088,338)
Non-instructional	524,881	81,190	64,239	-	(379,452)
Interest and other expenses on long-term liabilities	89,784	-	15,670	-	(74,114)
Total governmental activities	8,548,741	171,996	1,977,404	29,662	(6,369,679)
General Revenues:					
Taxes:					
General purpose levies					1,767,176
Debt purpose levies					98,936
Unrestricted grants & contributions:					
State					4,639,251
Federal					36,033
Unrestricted investment earnings					28,580
Sixteenth section earnings					12,141
Other					1,490
Total General Revenues					6,583,607
Special Items:					
Insurance Loss Recoveries					1,047
Total General Revenues & Special Items					6,584,654
Change in Net Assets					214,975
Net Assets - Beginning					6,392,796
Net Assets - Ending					$ 6,607,771

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

NEWTON MUNICIPAL SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2005

EXHIBIT C

	MAJOR FUNDS						
	General Fund	Tech. Literacy Challege Fund	EEF Buildings/ Buses Fund	E2T2 Grant Fund	Talent Search FY 2005 Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:							
Cash and cash equivalents (Note 2)	$ 1,505,635	$ 15,734	$ 83,386	$ 10,293	$ 2,352	$ 974,635	$ 2,592,035
Other Receivables	-	-	-	-	-	153	153
Due from Other Governments	87,059	-	3,469	-	7,648	115,804	213,980
Due from other funds (Note 3)	15,941	-	-	-	-	-	15,941
Inventories and prepaid items	32,700	-	-	-	-	4,071	36,771
TOTAL ASSETS	$ 1,641,335	$ 15,734	$ 86,855	$ 10,293	$ 10,000	$ 1,094,663	$ 2,858,880
LIABILITIES & FUND BALANCES:							
Liabilities:							
Due to other funds (Note 3)	$ -	$ -	$ -	$ -	$ 10,000	$ 5,941	$ 15,941
Deferred revenue	-	15,734	41,661	10,293	-	5,620	73,308
Total Liabilities	-	15,734	41,661	10,293	10,000	11,561	89,249
Fund Balances:							
Reserved For:							
Inventory and prepaid items	32,700	-	-	-	-	4,072	36,772
Unreserved:							
Designated:							
Capital Projects	-	-	-	-	-	167,280	167,280
Undesignated, reported in:							
General Fund	1,608,635	-	-	-	-	-	1,608,635
Special Revenue Funds	-	-	45,194	-	-	527,472	572,666
Debt Service Funds	-	-	-	-	-	377,226	377,226
Permanent Fund	-	-	-	-	-	7,052	7,052
Total Fund Equity	1,641,335	-	45,194	-	-	1,083,102	2,769,631
TOTAL LIABILITIES AND FUND BALANCE	$ 1,641,335	$ 15,734	$ 86,855	$ 10,293	$ 10,000	$ 1,094,663	$ 2,858,880

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

NEWTON MUNICIPAL SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASS
JUNE 30, 2005

EXHIBIT C-1

Total Fund Balance - Governmental Funds	$	2,769,631
Amounts reported for net assets in the statement of net assets (Exhibit A) are different because:		
1. Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of $3,056,979. (Note 4)		6,911,030
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (Note 5)		(3,036,847)
3. Interest payable on long-term liabilities is not due and payable in the current period and therefore is not reported in the funds.		(36,043)
Total Net Assets - Governmental Activities	$	6,607,771

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

NEWTON MUNICIPAL SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

EXHIBIT D

	MAJOR FUNDS						
REVENUES	General Fund	Tech. Literacy Challege Fund	EEF Buildings/ Buses Fund	E2T2 Grant Fund	Talent Search FY 2005 Fund	Other Governmental Funds	Total Governmental Funds
Local Sources	$ 1,878,663	$ -	$ -	$ -	$ -	$ 186,148	$ 2,064,811
State Sources	4,310,211	-	41,661	-	-	646,781	4,998,653
Federal Sources	59,767	-	-	7,932	316,300	1,303,066	1,687,065
Sixteenth Section Sources	-	-	-	-	-	12,692	12,692
TOTAL REVENUES	6,248,641	-	41,661	7,932	316,300	2,148,687	8,763,221
EXPENDITURES							
Instruction	3,567,011	-	-	-	-	930,885	4,497,896
Support Services	2,312,891	-	-	7,932	308,157	645,055	3,274,035
Noninstructional Services	39,943	-	-	-	-	476,192	516,135
Facilities Acquisition & Const.	-	-	-	-	-	523,087	523,087
Debt Service:							
Principal	5,000	-	-	-	-	103,196	108,196
Interest	-	-	-	-	-	91,886	91,886
Other	-	-	-	-	-	838	838
TOTAL EXPENDITURES	5,924,845	-	-	7,932	308,157	2,771,139	9,012,073
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	323,796	-	41,661	-	8,143	(622,452)	(248,852)
OTHER FINANCIAL SOURCES (USES)							
Operating Transfers In	99,873	-	-		-	762,333	862,206
Other financing sources/uses	495	-	-		-	(573)	(78)
Operating Transfers Out	(330,911)	-	-	-	(8,143)	(523,152)	(862,206)
TOTAL OTHER FINANCING SOURCES (USES)	(230,543)	-	-	-	(8,143)	238,608	(78)
NET CHANGE IN FUND BALANCES	93,253	-	41,661	-	-	(383,844)	(248,930)
FUND BALANCE, JULY 1, 2004	1,548,082	-	3,533	-	-	1,467,748	3,019,363
Increase (decrease) in reserve for inventory	-	-	-	-	-	(802)	(802)
FUND BALANCE, JUNE 30, 2005	$ 1,641,335	$ -	$ 45,194	$ -	$ -	$ 1,083,102	$ 2,769,631

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

NEWTON MUNICIPAL SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

EXHIBIT D-1

Net Change in fund balances - governmental funds	$	(248,930)
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 purchases and construction costs amounted to $574,685 and the depreciation expense amounted to $219,310. (Note 4)		355,375
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)		108,196
3. Loss on disposal of capital assets is not included in the governmental funds, but the loss is included as an additional expense in the statement of activity.		(2,376)
4. Decrease in accrued interest payable is reported as Expenditures-Debt Service: Interest in the governmental funds, but the decrease reduces the interest payable on long-term liabilities on the statement of net assets.		3,512
5. Increase in inventory is reported as an adjustment to fund balance in the governmental funds, but non-instructional expense is increased (decreased) in the statement of activity.		(802)
Change in net assets of governmental activities	$	214,975

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

NEWTON MUNICIPAL SCHOOL DISTRICT
STATEMENT OF NET ASSETS - FIDUCIARY FUNDS
JUNE 30, 2005

EXHIBIT E

	Agency Funds
ASSETS	
Cash and cash equivalents	$ 393,999
LIABILITIES	
Due to Student Clubs	15,849
Accounts payable and accrued liabilities	378,150
Total Liabilities	393,999
TOTAL NET ASSETS	$ -

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

(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 a related organization of, but not a component unit of, the city of Newton 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 statement consists of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-Wide Financial Statements:

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

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

Fund Financial Statements:

Fund financial statements of the school district are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute 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.

(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. 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 so 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.

Technology Literacy Challenge Fund - This is the fund that accounts for the Technology Literacy Challenge Grant revenue and expenditures.

EEF Buildings/Buses Fund - This is the fund that accounts for EEF Buildings/Buses revenue and expenditures

E2T2 Grant Fund - This is the fund that accounts for the Educational Technology Grant revenue and expenditures.

Talent Search FY 2005 Fund - This is the fund that accounts for the Educational Talent Search Federal Program Grant for the program's fiscal year ending August 31, 2005.

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

Additionally the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

(1) *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. - CONTINUED*

C. Measurement Focus and Basis of Accounting. - 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. The primary revenue source is received from the State of Mississippi under the authority of the Mississippi Accountability and Adequate Education Program Act, Sections 37-151-1 through 37-151-7, Miss. Code Ann. (1972). Other revenue consists of local property taxes levied specifically for debt service.

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

FIDUCIARY FUNDS

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

D. Account Classifications.

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

E. Encumbrances.

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

F. Cash and Cash Equivalents.

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

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

G. Investments.

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

H. Inventories and Prepaid Items.

Donated inventories 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.)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. - CONTINUED

H. Inventories and Prepaid Items. – Continued

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

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

I. Capital assets.

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

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

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

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

J. Long-term liabilities.

Long-term liabilities are the unmatured principal of bonds, warrants, notes, or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments. Long-term liabilities should not be reported as liabilities in governmental funds, but should be reported in the governmental activities column in the government-wide statement of net assets. (See Note 6 for details).

K. Interfund Transactions and Balances.

Interfund transactions and balances are the result of timing differences between the date expense/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.

(1) *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. - CONTINUED*

K. Interfund Transactions and Balances. - Continued

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.

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 further split between 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 and prepaid items - An account that represents a portion of the fund balance which indicates that inventory and prepaid items 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 city on behalf of the school district based upon an order adopted by the school board of the school district requesting an ad valorem tax effort in dollars. Since the taxes are not levied and collected by the school district, the revenues to be generated by the annual levies are not recognized until the taxes are actually collected by the tax levying authority.

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 to do so by Section 37-7-307(5), Miss Code Ann. (1972).

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

(2) CHANGES IN ACCOUNTING STANDARDS

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

(3) CASH AND CASH EQUIVALENTS, RESTRICTED CASH

Cash and Cash Equivalents.

The collateral for public entities' deposits in financial institutions are now 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 and fiduciary funds was $2,592,035 and $393,999, respectively. The carrying amount of deposits reported in the government–wide statements was: Cash and cash equivalents $2,465,235 and restricted assets $126,800.The restricted assets represent Cash with Fiscal Agent of $119,765 and 16th Section Principal funds (Permanent Funds) of $7,035 which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was $3,187,659.

(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
Major Funds:		
General Fund	$15,941	$ -
Talent Search FY 2005	-	10,000
Other governmental funds:	-	5,941
Total Funds	$15,941	$15,941

The amounts due to or from other funds represent amounts advanced or received for timing differences between revenues and expenditures and cash balances.

B. Transfers In/Out:

	Transfers In	Transfers Out
Major Funds:		
General Fund	$ 74,560	$330,911
Other governmental funds:	787,646	531,295
Total Funds	$862,206	$862,206

The transfers represent board approved operating transfers for school operations and planning purposes.

(5) *CAPITAL ASSETS.*

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

	Balance 7/1/2004	Additions	Retirements	Completed Construction	Balance 6/30/2005
Non-depreciable capital					
Land	$ 42,306	$ -	$ -	$ -	$ 42,306
Construction in progress	455,505	521,205		(423,496)	553,214
Total non-depreciable	497,811	521,205	-	(423,496)	595,520
Depreciable capital assets:					
Buildings	7,821,636			423,496	8,245,132
Improvements o/t buildings	81,281				81,281
Mobile equipment	863,339	53,480	(21,931)		894,888
Furniture and equipment	143,183	-	(15,575)		127,608
Leased property under capital leases	23,580				23,580
Total depreciable capital	8,933,019	53,480	(37,506)	423,496	9,372,489
Less accumulated					
Buildings	2,113,776	152,292	-		2,266,068
Improvements o/t buildings	56,105	1,784			57,889
Mobile equipment	570,018	48,191	(19,710)		598,499
Furniture and equipment	109,556	17,043	(15,420)		111,179
Leased property under capital leases	23,344	-			23,344
Total accumulated depreciation	2,872,799	219,310	(35,130)	-	3,056,979
Total deprec.capital assets, net	6,060,220	(165,830)	(2,376)	-	6,315,510
Governmental activities capital assets, net	$ 6,558,031	$ 355,375	$ (2,376)	$ -	$ 6,911,030

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	$166,721
Support services	48,903
Non-instructional	3,686
Total depreciation expense	$219,310

The general fixed assets above include significant amounts of buildings and furniture and fixtures that 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.

(5) *CAPITAL ASSETS. - CONTINUED*

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

	Remaining Commitment	Required Future Financing
Central Office Construction	$26,037	$ 0
Total	$26,037	$ 0

(6) *LONG-TERM LIABILITIES.*

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

	Balance 7/1/2004	Additions	Deletions	Balance 6/30/2005	Amount due within one year
A. Limited obligation bonds payable	$ 1,920,000	$ -	$ 90,000	$ 1,830,000	$ 95,000
B. Qualified zone academy bonds payable	1,125,000	-	-	1,125,000	-
C. Other loans payable	16,327	-	5,000	11,327	5,000
D. Obligations under capital leases	28,076	-	13,196	14,880	14,880
E. Compensated absences payable	55,640	-	-	55,640	-
	$ 3,145,043	$ -	$ 108,196	$ 3,036,847	$ 114,880

A. Limited obligation bonds payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital improvement bonds, series 1998	4.40%-6%	05/01/1998	08/01/2018	$2,200,000	$1,830,000

(6) *LONG-TERM LIABILITIES. - CONTINUED*

B. Limited obligation bonds payable.

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

Year Ending June 30,	Principal	Interest	Total
2006	$ 95,000	$ 84,375	$ 179,375
2007	100,000	79,563	179,563
2008	105,000	75,053	180,053
2009	110,000	70,268	180,268
2010	115,000	65,148	180,148
2011-2015	655,000	235,479	890,479
2016-2020	650,000	64,000	714,000
Total	$1,830,000	$673,886	$2,503,886

This debt will be retired from the MAEP Retirement Debt Service Fund.

C. Qualified zone academy bonds payable.

As more fully explained in **Note 9**, debt have been issued by the school district that qualifies as Qualified Zone Academy bonds. Debt currently outstanding is as follows:

Description	Discount Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
QZAB Bond	N/A	07/20/2000	07/01/2010	$1,125,000	$1,125,000

This debt will be retired from the QZAB Retirement Debt Service Fund.

D. Other loans payable.

Debt currently outstanding is as follows:

Description	Discount Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
EPA Loan	N/A	06/01/1990	12/01/2007	$88,900	$11,327

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

Year Ending June 30,	Principal
2006	$ 5,000
2007	5,000
2008	1,327
Total	$11,327

This debt will be retired from the District Maintenance Fund.

(6) *LONG-TERM LIABILITIES. - CONTINUED*

E. Obligations under capital leases

The school district has entered into a lease agreement that qualifies as a capital lease for accounting purposes. Leased property under this lease consists of computer equipment and related educational software. The original amount of the lease was $73,656 with a maturity of August 31, 2005 and interest rate of 8.25%

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

June 30,	Principal	Interest	Total
2006	$ 14,880	$ 790	$ 15,670
Total	$ 14,880	$ 790	$ 15,670

This debt will be retired from the Title I 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 employee's salaries were paid.

(7) *DEFINED BENEFIT PENSION PLAN.*

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary and the school district is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The School district's contributions to PERS for the fiscal years ending June 30, 2005, 2004 and 2003 were $506,012, $450,294, and $386,684 respectively, which equaled the required contributions for each year.

(8) *SIXTEENTH SECTION LANDS.*

Sixteenth section school lands, or lands granted in lieu thereof, constitute property held in trust for the benefit of the public schools. The school board, under the general supervision of the Office of the Secretary of State, has control and jurisdiction of said school trust lands and of all funds arising from any disposition thereof. It is the duty of the school board to manage the school trust lands and all funds arising there from as trust

(8) SIXTEENTH SECTION LANDS. - CONTINUED

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	$ 11,529
2007	6,185
2008	6,034
2009	4,714
2010	4,714
Thereafter	49,935
Total	$83,111

(9) RISK MANAGEMENT

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

Participation in Public Entity Risk Pool.

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately ninety 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. 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 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.

One June 12, 2000, the Newton Municipal School District board of trustees adopted a resolution authorizing the issuance of a one million one hundred twenty-five thousand dollars $1,125,000) 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 and board president and secretary to execute all documents necessary to effect the issuance of the note.

A trust agreement dated July 20, 2000, was executed by and between the school district and Trustmark National Bank, as trustees. The trust agreement authorized the issuance of trust certificates in the principal amount of $1,125,000. Approximately $1,078,315 was used to provide financing for the construction and renovation of school buildings and related facilities and equipment (the "project"); the remainder of approximately $46,685 was used to pay the cost of issuance.

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 debt repayment shall be made from a combination of three mill – ten year notes, Education Enhancement Funds ("EEF Funds") and other Unrestricted Funds. 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,	Amount
2006	$136,000
2007	136,000
2008	136,000
2009	136,000
2010	136,000
2011	130,000
Total	$810,000

(11) ALTERNATIVE SCHOOL CONSORTIUM.

The school district entered into an Alternative School Agreement dated August 19, 1994, creating the East Central Alternative School Consortium. This consortium was created pursuant to the provisions of Section 37-13-92 (6), Miss. Code Ann. (1972), and approved by the Mississippi Department of Education and includes the Union Public School District, Scott County School District, Forest Municipal School District, Neshoba County School District, Newton Municipal School District and Newton County School District.

Section 37-13-92 (6), Miss. Code Ann. (1972), allows two or more adjacent school districts to enter into a contract to operate an alternative school program. The school board of the school district designated by the agreement as the lead district will serve as the governing board of the alternative school program. Transportation for students attending the alternative school program will be the responsibility of the individual school district sending the students.

The Newton County School District has been designated as the lead school district for the East Central Alternative School Consortium, and the operations of the consortium are included in its financial statements.

(12) SPECIAL ITEMS.

The special item in Exhibit B of $1,047 consists of insurance proceeds to reimburse the District for expenses due to an automobile accident.

(13) OTHER COMMITMENTS.

Commitments under construction contracts are described in Note 5.

NEWTON MUNICIPAL SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

NEWTON MUNICIPAL SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

SCHEDULE 1a

	Budgeted Amounts		Actual	Variances Positive (Negative)	
	Original	Final	(GAAP Basis)	Original to Final	Final to Actual
REVENUES					
Local Sources	$ 1,880,194	$ 1,909,420	$ 1,878,663	$ 29,226	$ (30,757)
State Sources	4,298,390	4,302,341	4,310,211	3,951	7,870
Federal Sources	42,000	27,000	59,767	(15,000)	32,767
TOTAL REVENUES	6,220,584	6,238,761	6,248,641	18,177	9,880
EXPENDITURES					
Instruction	3,648,107	3,703,973	3,567,011	(55,866)	136,962
Support Services	2,670,501	2,678,104	2,312,891	(7,603)	365,213
Noninstructional Services	41,700	68,036	39,943	(26,336)	28,093
Debt Service:					
Principal	5,000	5,000	5,000	-	-
TOTAL EXPENDITURES	6,365,308	6,455,113	5,924,845	(89,805)	530,268
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(144,724)	(216,352)	323,796	(71,628)	540,148
OTHER FINANCING SOURCES (USES)					
Operating Transfers In	134,581	107,870	99,873	(26,711)	(7,997)
Other financing sources/uses	2,400	2,400	495	-	(1,905)
Operating Transfers Out	(343,235)	(330,494)	(330,911)	12,741	(417)
TOTAL OTHER FINANCING SOURCES (USES)	(206,254)	(220,224)	(230,543)	(13,970)	(10,319)
NET CHANGE IN FUND BALANCES	(350,978)	(436,576)	93,253	(85,598)	529,829
FUND BALANCE, JULY 1, 2004	1,447,880	1,548,082	1,548,082	100,202	-
FUND BALANCE, JUNE 30, 2005	$ 1,096,902	$ 1,111,506	$ 1,641,335	$ 14,604	$ 529,829

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

NEWTON MUNICIPAL SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE TECHNOLOGY LITERACY CHALLEGE FUND
FOR THE YEAR ENDED JUNE 30, 2005

SCHEDULE 1b

	Budgeted Amounts		Actual	Variances Positive (Negative)	
	Original	Final	(GAAP Basis)	Original to Final	Final to Actual
REVENUES					
Federal Sources	$ -	$ -	$ -	$ -	$ -
EXPENDITURES					
Noninstructional Services	15,750	15,750	-	-	15,750
TOTAL EXPENDITURES	15,750	15,750	-	-	15,750
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(15,750)	(15,750)	-	-	15,750
OTHER FINANCING SOURCES (USES) Operating Transfers Out	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-	-
NET CHANGE IN FUND BALANCES	(15,750)	(15,750)	-	-	15,750
FUND BALANCE, JULY 1, 2004	-	-	-	-	-
FUND BALANCE, JUNE 30, 2005	$ (15,750)	$ (15,750)	$ -	$ -	$ 15,750

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

NEWTON MUNICIPAL SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE EEF BUILDINGS/BUSES FUND
FOR THE YEAR ENDED JUNE 30, 2005

SCHEDULE 1c

	Budgeted Amounts		Actual	Variances Positive (Negative)	
	Original	Final	(GAAP Basis)	Original to Final	Final to Actual
REVENUES					
State Sources	$ 41,661	$ 41,661	$ 41,661	$ -	$ -
EXPENDITURES					
Debt Service:					
Principal	77,772	77,772	-	-	77,772
Interest	3,889	3,889	-	-	3,889
TOTAL EXPENDITURES	81,661	81,661	-	-	81,661
NET CHANGE IN FUND BALANCES	(40,000)	(40,000)	41,661	-	81,661
FUND BALANCE, JULY 1, 2004	3,533	3,533	3,533	-	-
FUND BALANCE, JUNE 30, 2005	$ (36,467)	$ (36,467)	$ 45,194	$ -	$ 81,661

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

NEWTON MUNICIPAL SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE E2T2 GRANT FUND
FOR THE YEAR ENDED JUNE 30, 2004

SCHEDULE 1d

	Budgeted Amounts		Actual	Variances Positive (Negative)	
	Original	Final	(GAAP Basis)	Original to Final	Final to Actual
REVENUES					
Federal Sources	$ 9,232	$ 9,232	$ 7,932	$ -	$ (1,300)
EXPENDITURES					
Noninstructional Services	9,232	9,232	7,932	-	1,300
TOTAL EXPENDITURES	9,232	9,232	7,932	-	1,300
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	-	-	-	(2,600)
OTHER FINANCING SOURCES (USES)					
Operating Transfers Out	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-	-
NET CHANGE IN FUND BALANCES	-	-	-	-	-
FUND BALANCE, JULY 1, 2004	-	-	-	-	-
FUND BALANCE, JUNE 30, 2005	$ -	$ -	$ -	$ -	$ -

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

NEWTON MUNICIPAL SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR THE TALENT SEARCH FY 2005 FUND
FOR THE YEAR ENDED JUNE 30, 2005

SCHEDULE 1e

	Budgeted Amounts		Actual	Variances Positive (Negative)	
	Original	Final	(GAAP Basis)	Original to Final	Final to Actual
REVENUES					
Federal Sources	$ 373,025	$ 373,025	$ 316,300	$ -	$ (56,725)
EXPENDITURES					
Support Services	358,025	358,783	308,157	(758)	50,626
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	15,000	14,242	8,143	(758)	(6,099)
OTHER FINANCIAL SOURCES (USES)					
Operating Transfers Out	(15,000)	(14,242)	(8,143)	758	6,099
NET CHANGE IN FUND BALANCES	-	-	-	-	-
FUND BALANCE, JULY 1, 2004	-	-	-	-	-
FUND BALANCE, JUNE 30, 2005	$ -	$ -	$ -	$ -	$ -

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

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 budgets 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.

NEWTON MUNICIPAL SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

NEWTON MUNICIPAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

SCHEDULE 1

Federal Grantor/ Pass-Through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE		
Passed-Through Mississippi Dept. of Education:		
Non-Cash Assistance:		
Food Distribution	10.550	$ 28,415
Child Nutrition Cluster		
School Breakfast Program	10.553	116,606
National School Lunch Program	10.555	313,850
Total		430,456
Total U.S. Dept. of Agriculture		458,871
U.S. DEPARTMENT OF COMMERCE		
Passed-Through Mississippi Department of Education:		
Telecommunications and Information infrastructure assistance program	11.552	47,576
Total U.S. Department of Commerce		47,576
U.S. DEPARTMENT OF EDUCATION		
Passed-Through Mississippi Dept. of Education:		
Title I - grants to local educational agencies	84.010	324,523
TRIO - Talent search	84.044	349,420
Vocational education - basic grants to states	84.048	17,364
Safe and drug-free schools and communities - state grants	84.186	8,388
Innovative education program strategies	84.298	6,549
Education technology state grants	84.318	7,932
Rural education achievement program	84.358	47,389
Improving teacher quality - state grants	84.367	104,323
Total		865,888
Special Education Cluster:		
Special education - grants to states	84.027	277,426
Special education - preschool grants	84.173	21,580
Total		299,006
Total U.S. Department of Education		1,164,894
Total for all Federal Awards		$ 1,671,341

NOTES TO THE 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.

NEWTON MUNICIPAL 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	$ 6,556,883	$ 4,065,011	$ 797,023	$ 1,694,849
Other	2,455,190	432,885	154,201	1,868,104
Total	$ 9,012,073	$ 4,497,896	$ 951,224	$ 3,562,953
Total number of students	1,001			
Cost per student	$ 9,003	$ 4,493	$ 950	$ 3,559

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 assistancts of any type. (All the 1000 functional codes)

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

Other - includes all expenditure functions not included in Instruction and Administrative.

NEWTON MUNICIPAL SCHOOL DISTRICT

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

HOLT & ASSOCIATES, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

W. David Dill, CPA
M.C. Princy Harrison, CPA, CGFM
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Superintendent and School Board
Newton Municipal School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Newton Municipal School District as of and for the year ended June 30, 2005, and have issued our report thereon dated October 28, 2005. 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 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 noted no matters involving internal control over financial reporting and its operation that would we consider to be a material weakness.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*.

This report is intended for the information 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.

Holt + Associates

October 28, 2005

HOLT & ASSOCIATES, PLLC

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

Superintendent and School Board
Newton Municipal School District

Compliance

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

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

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In our opinion, Newton Municipal 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 Newton Municipal 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 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 for the information 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.

Holt + Associates

October 28, 2005

NEWTON MUNICIPAL SCHOOL DISTRICT

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

HOLT & ASSOCIATES, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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

Superintendent and School Board
Newton Municipal School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Newton Municipal School District as of and for the year ended June 30, 2005, which collectively comprise Newton Municipal School District's basic financial statements and have issued our report thereon dated October 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*.

Section 37-9-18(3), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure that the school district is complying with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds". As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain 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 an instance of non-compliance. The District reported $17,668 of classroom supply funds carried over from previous years.

This report is intended for the information 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.

Holt + Associates

October 28, 2005

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NEWTON MUNICIPAL SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

Section 1: Summary of Auditor's Results

Financial Statements:

1. Type of auditor's report issued on the basic financial statements: Unqualified

2. Material noncompliance relating to the basic financial statements? No

3. Internal control over financial reporting:

   a. Material weakness(es) identified? No

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

Federal Awards:

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

5. Internal control over major programs:

   a. Material weakness(es) identified? No

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

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

7. Federal programs identified as major programs:

   a. Cluster: Child Nutrition

CFDA #:	10.553	School Breakfast Program
CFDA #:	10.555	National School Lunch Program

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
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

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 related to the federal awards.

NEWTON MUNICIPAL SCHOOL DISTRICT

AUDITEE'S CORRECTIVE ACTION PLAN AND/OR SCHEDULE OF PRIOR AUDIT FINDINGS

Newton Municipal School District
P.O. Box 150
Newton, Mississippi 39345
Dr. Mina Bryan, Superintendent
Phone: 601 / 683-2451 • Fax: 601 / 683-7131

Financial & Compliance Audit Division

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

Not Applicable

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

Not Applicable