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PEARL RIVER COUNTY SCHOOL DISTRICT

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

PEARL RIVER COUNTY SCHOOL DISTRICT

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PEARL RIVER COUNTY SCHOOL DISTRICT
FINANCIAL AUDIT REPORT

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

October 2, 2006

Superintendent and School Board
Pearl River County School District

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Pearl River County School District, as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 2, 2006, on our consideration of the Pearl River County 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 3 through 7 and the Budgetary Comparison Schedule and corresponding notes on pages 28 through 29 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pearl River County 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. 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.


Whitfield & Company P. C.
Certified Public Accountants

**PEARL RIVER COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

The discussion and analysis of Pearl River County School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

This discussion and analysis is an element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999. Certain comparative information between the current year and the prior year is required to be presented. This report will present certain comparative information between fiscal year 2004 and 2005.

Pearl River County School District educated 2,847 students in preschool through twelfth grade.

FINANCIAL HIGHLIGHTS

- Total net assets increased \$1,133,557, which represents 11.67% of ending net assets.
- General revenues account for \$14,872,690 in revenue, or 82.12% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$3,236,915 or 17.88% of total revenues.
- The District had \$16,971,948 in expenses; only \$3,236,915 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$14,872,690 were adequate to provide for these programs.
- Among major funds, the General Fund had \$14,152,929 in revenues and \$13,769,936 in expenditures. The General Fund's fund balance decreased \$137,813 compared to the prior year.
- Capital assets, net of accumulated depreciation, increased by \$2,065,860.
- Long-term debt increased by \$24,598.

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.

PEARL RIVER COUNTY SCHOOL DISTRICT
Management Discussion and Analysis - Continued

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 8-9 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 11 and 13, 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 10-13 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 14.

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 16-27 of this report.

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund. This required supplementary information can be found on page 28 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Circular A-133 and can be found on page 30 of this report.

PEARL RIVER COUNTY SCHOOL DISTRICT
Management Discussion and Analysis - Continued

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of the government's financial position. In the case of the District, assets exceeded liabilities by \$9,710,895 as of June 30, 2005.

By far the largest portion of the District's net assets (41.67 %) 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 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 years ended June 30, 2005 and June 30, 2004.

	2005	2004
Current assets	\$ 7,289,120	\$ 7,857,827
Capital assets, net	13,736,107	11,670,247
Total assets	<u>\$ 21,025,227</u>	<u>\$ 19,528,074</u>
Current liabilities	\$ 1,607,590	\$ 1,265,639
Other liabilities	4,757	5,097
Long-term debt	9,701,985	9,680,000
Total liabilities	<u>\$ 11,314,332</u>	<u>\$ 10,950,736</u>
Invested in capital assets, Net of Related Debt	\$ 4,046,578	\$ 3,944,422
Restricted	2,845,815	1,621,137
Unrestricted	2,818,502	3,011,779
Total net assets	<u>\$ 9,710,895</u>	<u>\$ 8,577,338</u>

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2005 were \$18,109,605. The total cost of all programs and services was \$16,971,948. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2005 and June 30, 2004.

	2005	2004
<i>Revenues</i>		
Program revenues	\$ 3,236,915	\$ 2,965,330
General revenues	14,872,690	13,840,299
Special items	-	(539)
Total revenues	<u>18,109,605</u>	<u>16,805,090</u>
<i>Expenditures</i>		
Instruction	10,475,057	9,552,099
Support services	4,937,019	4,503,424
Non-instructional	1,177,456	1,024,071
Sixteenth section	18,274	39,738
Interest on long-term liabilities	364,142	248,039
Total expenditures	<u>16,971,948</u>	<u>15,367,371</u>
Increase (decrease) in net assets	<u>\$ 1,137,657</u>	<u>\$ 1,437,719</u>

PEARL RIVER COUNTY SCHOOL DISTRICT
Management Discussion and Analysis - Continued

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

	2005		2004	
	Total Expenses	Net (Expense) Revenue	Total Expenses	Net (Expense) Revenue
Instruction	\$ 10,475,057	\$ (8,751,074)	\$ 9,552,099	\$ (8,029,287)
Support services	4,937,019	(4,540,365)	4,503,424	(4,049,030)
Non-instructional	1,177,456	(66,991)	1,024,071	(41,963)
Sixteenth section	18,274	(12,461)	39,738	(33,722)
Interest on long-term liabilities	364,142	(364,142)	248,039	(248,039)
Total expenses	\$ 16,971,948	\$ (13,735,033)	\$ 15,367,371	\$ (12,402,041)

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 expendable 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 \$5,431,058, a decrease of \$975,673. \$2,502,484 or 46.07% 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 \$2,928,574, or 53.93%, is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was \$137,813, a result of expenditures greater than revenues. The fund balance of Other Governmental Funds showed a decrease due primarily to capital expenditures and operating transfers.

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 is provided in this report as required supplementary information.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2005, the District's total capital assets were \$17,624,180 including land, school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$2,456,687 from the previous year. Total accumulated depreciation as of June 30, 2005 was \$3,888,073 and total depreciation expense for the year was \$446,493 resulting in total net assets of \$13,736,107.

Additional information of the District's capital assets can be found on pages 22-23 of this report.

Debt Administration. At June 30, 2005, the District had \$9,701,985 in general obligation bonds and other long-term debt outstanding, of which \$651,000 is due within one year.

**PEARL RIVER COUNTY SCHOOL DISTRICT
Management Discussion and Analysis - Continued**

The District does not have a bond rating. The firm which assists the District in financing issues does not feel it is necessary to obtain a rating.

Additional information of the District's long-term debt can be found on pages 23-26 of this report.

CURRENT ISSUES

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

The District has committed itself to financial excellence for many years. The millage levy has increased 4.24 over 4 years. In addition, the District system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

Latest enrollment figures indicate that student enrollment in the District will increase by 450 students. The budget for the next fiscal year has taken into account this addition 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 Pearl River County School District, 7441 Hwy 11, Carriere, MS 39426.

PEARL RIVER COUNTY SCHOOL DISTRICT
FINANCIAL STATEMENTS

PEARL RIVER COUNTY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2005

ASSETS

Cash and cash equivalents	\$ 5,653,638
Cash with fiscal agent	114,080
Investments	364,013
Due from other governments	497,355
Other Receivables, net	11,097
Deferred charges	291,244
Inventories and prepaid items	25,594
Restricted assets	332,099
Capital assets, net	<u>13,736,107</u>
Total Assets	<u>\$ 21,025,227</u>

LIABILITIES

Accounts payable and accrued liabilities	\$ 1,566,818
Interest payable on long-term liabilities	40,772
Long-term liabilities (due within one year)	
Capital-related liabilities	651,000
Non-capital related liabilities	1,740
Long-term liabilities (due beyond one year)	
Capital-related liabilities	8,993,000
Non-capital related liabilities	56,245
Other liabilities	
Deferred revenue - bond premium	<u>4,757</u>
Total liabilities	<u>\$ 11,314,332</u>

NET ASSETS

Investment in capital assets, net of related debt	\$ 4,046,578
Restricted net assets:	
Expendable:	
School based activities	839,727
Debt service	722,330
Capital improvements	834,878
Forestry improvements	65,300
Unemployment benefits	51,481
Non-expendable:	
Sixteenth section	332,099
Unrestricted	<u>2,818,502</u>
Total net assets	<u>\$ 9,710,895</u>

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

PEARL RIVER COUNTY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental Activities:					
Instruction	\$ 10,475,057	\$ 320,327	\$ 1,403,656	\$ -	\$ (8,751,074)
Support services	4,937,019	-	396,654	-	(4,540,365)
Non-instructional services	1,177,456	360,334	750,131	-	(66,991)
Sixteenth Section	18,274	5,813	-	-	(12,461)
Interest on long-term liabilities	364,142	-	-	-	(364,142)
Total governmental activities	\$ 16,971,948	\$ 686,474	\$ 2,550,441	\$ -	\$ (13,735,033)
General Revenues:					
Taxes					
General purposes - property taxes				\$	3,402,011
Debt services - property taxes					605,398
Unrestricted grants and contributions:					
State					10,465,148
Federal					92,532
Unrestricted investment earnings					196,311
Sixteenth section sources					90,103
Other					21,187
Total general revenues					14,872,690
Change in Net Assets					1,137,657
Net Assets - Beginning					8,577,338
Prior period adjustments					(4,100)
Net Assets - Restated					8,573,238
Net Assets - Ending				\$	9,710,895

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

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

	Major Funds		Other	Total
	General Fund	QZAB Renovation Fund	Governmental Funds	Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 3,519,276	\$ 687,491	\$ 1,778,970	\$ 5,985,737
Cash with fiscal agent	-	-	114,080	114,080
Investments	-	-	364,013	364,013
Due from other governments	276,115	-	221,240	497,355
Due from other funds	30,899	-	-	30,899
Other receivables, net	-	-	11,097	11,097
Inventories and prepaid items	-	-	25,594	25,594
Total Assets	\$ 3,826,290	\$ 687,491	\$ 2,514,994	\$ 7,028,775
LIABILITIES & FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 250,245	\$ 289,676	\$ 179,250	\$ 719,171
Due to other funds	<u>757,543</u>	<u>-</u>	<u>121,003</u>	<u>878,546</u>
Total Liabilities	<u>1,007,788</u>	<u>289,676</u>	<u>300,253</u>	<u>1,597,717</u>
Fund balances:				
Reserved for:				
Inventory	-	-	25,594	25,594
Capital projects	-	397,815	333,955	731,770
Debt service	-	-	722,330	722,330
Unemployment benefits	-	-	51,481	51,481
Forestry improvements	-	-	65,300	65,300
Permanent funds	-	-	332,099	332,099
Unreserved:				
Designated:				
For capital projects	1,000,000	-	-	1,000,000
Undesignated, reported in:				
General fund	1,818,502	-	-	1,818,502
Special revenue funds	<u>-</u>	<u>-</u>	<u>683,982</u>	<u>683,982</u>
Total Fund Balances	<u>2,818,502</u>	<u>397,815</u>	<u>2,214,741</u>	<u>5,431,058</u>
Total Liabilities & Fund Balances	\$ 3,826,290	\$ 687,491	\$ 2,514,994	\$ 7,028,775

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

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

	Amount
Total Fund Balance - Governmental Funds (Exhibit C)	\$ 5,431,058
Amounts reported for governmental activities in the Statements of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$3,888,073.	13,736,107
Other long-term assets are not available to pay for current period expenditures and, therefore are deferred in the funds.	291,244
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(9,701,985)
Remaining amortization on refunding bond premium is not due and payable in the current period and, therefore, is not reported in the funds.	(4,757)
Interest payable on long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(40,772)
Total Net Assets - Governmental Activities	\$ 9,710,895

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

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

	Major Funds		Other Governmental Funds	Total Governmental Funds
	General Fund	QZAB Renovation Fund		
Revenues:				
Local sources	\$ 3,797,598	\$ 17,344	\$ 1,103,107	\$ 4,918,049
State sources	10,266,338	-	535,650	10,801,988
Federal sources	88,993	-	2,189,564	2,278,557
Sixteenth section sources	-	-	102,813	102,813
Total Revenues	14,152,929	17,344	3,931,134	18,101,407
Expenditures:				
Instruction	8,791,864	-	1,457,148	10,249,012
Support services	4,429,162	20,950	526,349	4,976,461
Noninstructional services	33,546	-	1,063,215	1,096,761
Sixteenth section	-	-	18,274	18,274
Facilities acquisition and construction	84,921	568,564	1,680,850	2,334,335
Debt Service:				
Principal	430,000	-	721,000	1,151,000
Interest	443	-	340,613	341,056
Other	-	-	30,672	30,672
Total Expenditures	13,769,936	589,514	5,838,121	20,197,571
Excess (Deficiency) of Revenues Over Expenditures	382,993	(572,170)	(1,906,987)	(2,096,164)
Other Financing Sources (Uses):				
Proceeds general obligation bonds	-	1,000,000	-	1,000,000
Proceeds of refunding bonds	-	-	-	-
Proceeds of loans	115,000	-	-	115,000
Insurance loss recoveries	9,591	-	-	9,591
Operating transfers in	849,711	-	772,308	1,622,019
Operating transfers out	(1,495,108)	(30,015)	(96,896)	(1,622,019)
Total Other Financing Sources (Uses)	(520,806)	969,985	675,412	1,124,591
Net Change in Fund Balances	\$ (137,813)	\$ 397,815	\$ (1,231,575)	\$ (971,573)
Fund Balances:				
July 1, 2004, as previously reported	\$ 2,956,315	\$ -	\$ 3,447,436	\$ 6,403,751
Prior period adjustments & reclassifications	-	-	(4,100)	(4,100)
July 1, 2004, as restated	2,956,315	-	3,443,336	6,399,651
Increase (decrease) in reserve for inventory	-	-	2,980	2,980
June 30, 2005	\$ 2,818,502	\$ 397,815	\$ 2,214,741	\$ 5,431,058

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

PEARL RIVER COUNTY SCHOOL DISTRICT
Reconciliation of the Governmental Funds
Statement of Revenues, Expenditures and Changes in
Fund Balances to the Statement of Activities
For the Year Ended June 30, 2005

	Amount
Net Change in Fund Balances - Governmental Funds (Exhibit D)	\$ (971,573)
Amounts reported for governmental activities in the Statement of Activities (Exhibit B) are different because:	
1. Capital outlays are reported as expenditures in governmental funds but are not reported as expenses in the Statement of Activities. Instead, costs associated with capital assets are capitalized in the Statement of Net Assets.	2,516,400
2. Depreciation is not an expenditure in governmental funds but is an expense of allocating the cost of capital assets over their estimated useful lives in the statement of activities.	(446,493)
3. In the Statement of Activities, only gains and losses from the disposal of capital assets are reported, whereas in governmental funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by a combination of the following items:	
Loss on disposal of capital assets	(4,047)
4. The issuance of long-term debt provides current financial resources to governmental funds, but the issuance increases long-term liabilities in the Statement of Net Assets.	(1,115,000)
5. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	1,151,000
6. In the Statement of Activities, revenue is recorded when earned, whereas in governmental funds, revenue is recorded when measurable and available to pay current liabilities at the end of the period. Revenue that is measurable but not available is deferred in governmental funds.	340
7. Increase in inventory is reported as an adjustment to fund balance in the governmental funds, but non instructional expenditures are decreased in the Statement of Activities.	2,982
8. Issuance cost of long-term liabilities is reported as expenditures in the governmental funds but is deferred and amortized in the Statement of Activities.	18,960
9. Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net assets differs from the change in fund balances by a combination of the following items:	
Compensated absences	(11,402)
Accrued interest on bonds	(3,510)
	1,137,657
Change in net assets of Governmental Activities (Exhibit B)	\$ 1,137,657

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

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

	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash and cash equivalents	\$ 3,574	\$ 318,975
Due from other funds	<u>-</u>	<u>870,356</u>
 Total Assets	 <u>\$ 3,574</u>	 <u>\$ 1,189,331</u>
 Liabilities		
Due to other governments	\$ -	\$ 1,130,015
Due to student clubs	-	36,607
Due to other funds	<u>-</u>	<u>22,709</u>
 Total Liabilities	 <u>\$ -</u>	 <u>\$ 1,189,331</u>
 Net Assets		
Held in trust	<u>\$ 3,574</u>	
 Total Net Assets	 <u>\$ 3,574</u>	

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

PEARL RIVER COUNTY SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets
June 30, 2005

	<u>Private-Purpose Trust Funds</u>
Additions	
Interest on investments	\$ 74
Contributions and donations from private sources	<u>6,000</u>
Total Additions	<u>6,074</u>
Deductions	
Scholarships awarded	<u>2,500</u>
Total Deductions	<u>2,500</u>
Changes in Net Assets	<u>3,574</u>
Net assets	
July 1, 2004	<u>-</u>
July 30, 2005	<u>\$ 3,574</u>

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

PEARL RIVER COUNTY SCHOOL DISTRICT

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

(1) Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

The Pearl River County School District Leasing Authority (the "Authority") as explained in the following paragraph is considered to be a blended component unit as determined by Section 2100 of the *Codification of Governmental Accounting and Financial Reporting Standards* and is included in the district's reporting entity.

The Authority is governed by a five member board which was appointed by the school district's governing board. Although it is legally separate from the school district, it is reported as if it is part of the primary government because its sole purpose is to provide financing for the renovation, improvement, construction, and equipping of certain school facilities. Therefore, all of the Authority's assets, liabilities, equity, revenues, expenditures and other financing sources and uses have been included in the government-wide financial statements of the school district (see Note 11).

B. Basis of Presentation

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

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

PEARL RIVER COUNTY SCHOOL DISTRICT

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

(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 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 of Activities consist primarily of state appropriations and federal awards.

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

The school district reports the following major governmental funds:

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

QZAB Renovations Fund – This fund accounts for financial resources from the issuance of Qualified Zone Academy Bonds to be used for the renovation of major capital facilities.

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.

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

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

Fiduciary Funds

Private-purpose Trust Funds – Private-purpose trust funds are used to report all trust arrangements, other than those properly reported elsewhere, under which the principal and income benefit individuals, private organizations or other governments.

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.

PEARL RIVER COUNTY SCHOOL DISTRICT

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

(I) Summary of Significant Accounting Policies - Continued

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.

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

Capitalization threshold (dollar value above which asset acquisitions are added to the capital assets accounts) and estimated useful lives of capital assets are reported in the government-wide statements.

Depreciation is calculated on the straight-line basis for all assets, except land. The following schedule details those thresholds.

	Capitalization Policy	Estimated Useful Life
Land	\$ 0	\$ 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	*	*

PEARL RIVER COUNTY SCHOOL DISTRICT

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

(1) Summary of Significant Accounting Policies - Continued

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

(**) 15 year estimated useful life for relocatable buildings.

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. 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 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 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:

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 borrowing that are attributable to the acquisition, construction or improvement of those assets.

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.

Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Fund Financial Statements

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

PEARL RIVER COUNTY SCHOOL DISTRICT

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

(1) **Summary of Significant Accounting Policies - Continued**

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

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

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

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

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

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

Reserved for permanent fund purposes - An account that represents a portion of the fund balance that is legally restricted for investment purposes or borrowing by the school board for capital purposes.

M. Property Taxes

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

N. Mississippi Adequate Education Program Revenues

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

O. Compensated Absences

Employees of the school district accumulate sick leave at a minimum amount as required by state law or at a greater amount provided by the 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.

(2) **Changes in Accounting Standards**

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

PEARL RIVER COUNTY SCHOOL DISTRICT

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

(3) **Cash and Cash Equivalents, Cash with Fiscal Agents 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 \$5,985,737 and \$322,549, respectively. The carrying amount of deposits reported in the government-wide financial statements was: Cash and Cash Equivalents \$5,653,638 and Restricted Assets \$332,099. The Restricted Assets represent the cash balance of the sixteenth section principal fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$6,998,799.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2005, the district's bank balance of \$6,998,799 was exposed to custodial credit risk.

Cash with Fiscal Agents

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$114,080.

Investments

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

<u>Investment Type</u>	<u>Maturities (in years)</u>	<u>Fair Value</u>	<u>Rating</u>
Farmer MAC Disc Note	Less than 1	\$ 364,013	AAA
Total Investments		<u>\$ 364,013</u>	

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(3), 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.

Concentration of Credit Risk. Disclosure 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 did not have any investments to which this would apply.

PEARL RIVER COUNTY SCHOOL DISTRICT

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

(4) Interfund Transactions and Balances

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds

	<u>Due from</u>	<u>Due to</u>
Governmental Funds:		
General Fund	\$ 30,899	\$ 757,543
Other governmental funds	-	121,003
Fiduciary Funds	<u>870,356</u>	<u>22,709</u>
Total	<u>\$ 901,255</u>	<u>\$ 901,255</u>

B. Transfers In/Out

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
General Fund	\$ 849,711	\$ 1,495,108
QZAB Renovation Fund	-	\$ 30,015
Other governmental funds	<u>772,308</u>	<u>96,896</u>
Total	<u>\$ 1,622,019</u>	<u>\$ 1,622,019</u>

(5) Capital Assets

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

	<u>Balance 7/1/2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>Completed Construction</u>	<u>Adjustments</u>	<u>Balance 6/30/2005</u>
Non-depreciable capital assets:						
Land	\$ 359,361	\$ -	\$ -	\$ -	\$ -	\$ 359,361
Construction	<u>327,125</u>	<u>2,334,134</u>	-	-	-	<u>2,661,259</u>
Total non-depreciable capital assets	686,486	2,334,134	-	-	-	3,020,620
Depreciable capital assets:						
Buildings	10,377,123	-	-	-	-	10,377,123
Building improvements	1,299,635	-	-	-	-	1,299,635
Improvements other than buildings	694,281	-	-	-	-	694,281
Mobile equipment	1,564,253	157,928	-	-	-	1,722,181
Furniture and equipment	<u>545,715</u>	<u>24,338</u>	<u>(59,713)</u>	-	-	<u>510,340</u>
Total depreciable capital assets	14,481,007	182,266	(59,713)	-	-	14,603,560
Less accumulated depreciation:						
Buildings	1,892,587	194,727	-	-	-	2,087,314
Building improvements	242,562	50,418	-	-	-	292,980
Improvements other than buildings	142,843	27,771	-	-	-	170,614
Mobile equipment	847,450	116,742	-	-	-	964,192
Furniture and equipment	<u>371,804</u>	<u>56,835</u>	<u>(55,666)</u>	-	-	<u>372,973</u>
Total accumulated depreciation	3,497,246	446,493	(55,666)	-	-	3,888,073
Total depreciable capital assets, net	<u>10,983,761</u>	<u>(264,227)</u>	<u>(4,047)</u>	<u>-</u>	<u>-</u>	<u>10,715,487</u>
Governmental activities capital assets, net	<u>\$ 11,670,247</u>	<u>\$ 2,069,907</u>	<u>\$ (4,047)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,736,107</u>

PEARL RIVER COUNTY SCHOOL DISTRICT

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

(5) Capital Assets -Continued

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$ 240,345
Support Services	137,427
Non-instructional	<u>68,721</u>
Total Depreciation Expense	<u>\$ 446,493</u>

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

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

	<u>Remaining Commitment</u>	<u>Required Future Financing</u>
QZAB Junior High Addition and Renovation	\$ 293,859	\$ -
New Administration Building - Lower Elementary	76,591	-
Junior High Additions and Renovations	<u>152,570</u>	-
Total	<u>\$ 523,020</u>	<u>\$ -</u>

(6) Long-term Liabilities

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

	<u>Balance 7/1/2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/2005</u>	<u>Amounts Due Within One Year</u>
A General obligation bonds payable	\$ 4,440,000	\$ -	\$ 270,000	\$ 4,170,000	\$ 275,000
B Limited obligation bonds payable	2,840,000	-	160,000	2,680,000	165,000
C Certificates of participation payable	360,000	-	360,000	-	-
D Three mill notes payable	2,000,000	-	206,000	1,794,000	211,000
E Shortfall notes payable	40,000	115,000	155,000	-	-
F Qualified zone academy bonds payable	-	1,000,000	-	1,000,000	-
G Compensated absences payable	<u>46,583</u>	<u>11,402</u>	<u>-</u>	<u>57,985</u>	<u>1,740</u>
Total	<u>\$ 9,726,583</u>	<u>\$ 1,126,402</u>	<u>\$ 1,151,000</u>	<u>\$ 9,701,985</u>	<u>\$ 652,740</u>

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:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
General Obligation Refunding Bonds, Series 2003	2.00-3.85%	8/19/2003	8/15/2018	\$ 4,475,000	\$ 4,170,000

PEARL RIVER COUNTY SCHOOL DISTRICT

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

(6) Long-term Liabilities - Continued

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

Year Ending June 30	Principal	Interest	Total
2006	\$ 275,000	\$ 130,352	\$ 405,352
2007	285,000	124,852	409,852
2008	290,000	119,152	409,152
2009	300,000	111,902	411,902
2010	305,000	103,652	408,652
2011-2015	1,620,000	373,497	1,993,497
2016-2018	1,095,000	82,845	1,177,845
Total	\$ 4,170,000	\$ 1,046,252	\$ 5,216,252

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 5.4% of property assessments as of October 1, 2004. This debt will be retired from the 2003 Bond Retirement Fund.

B. Limited Obligation Bonds Payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State Aid Capital Improvement Bonds, Series 1998	4.25%-6.00%	05/01/98	2000-2018	\$ 3,450,000	\$ 2,680,000

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

Year Ending June 30	Principal	Interest	Total
2006	\$ 165,000	\$ 118,035	\$ 283,035
2007	170,000	109,472	279,472
2008	180,000	101,990	281,990
2009	190,000	94,035	284,035
2010	200,000	85,550	285,550
2011-2015	1,150,000	278,747	1,428,747
2016-2020	625,000	33,863	658,863
Total	\$ 2,680,000	\$ 821,692	\$ 3,501,692

The state aid capital improvement bonds are secured by an irrevocable pledge of certain revenues the district receives from the State of Mississippi pursuant to the Mississippi Accountability and Adequate Education Program Act, Sections 37-151-1 through 37-151-7, Miss. Code Ann. (1972). The state aid capital improvement bonds are not included in the computation of the debt limit percentage. This debt will be retired from the 1998 Bond Retirement Fund.

PEARL RIVER COUNTY SCHOOL DISTRICT

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

(6) Long-term Liabilities - Continued

C. Certificates of Participation Payable

As more fully explained in Note 12, certificates of participation have been issued by the school district. Certificates of participation currently outstanding are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Certificates of Participation	4.9%-5.875%	04/01/94	04/01/11	\$ 700,000	\$ -

This debt was retired from the EEF Building and Buses Fund.

D. Three Mill Notes Payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Limited tax note, Series 2004	1.4-4.05%	4/1/2004	4/1/2017	\$ 2,000,000	\$ 1,794,000

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

Year Ending June 30	Principal	Interest	Total
2006	\$ 211,000	\$ 52,490	\$ 263,490
2007	215,000	48,798	263,798
2008	218,000	44,390	262,390
2009	200,000	39,158	239,158
2010	122,000	33,858	155,858
2011-2015	580,000	112,661	692,661
2016-2020	248,000	14,984	262,984
Total	\$ 1,794,000	\$ 346,339	\$ 2,140,339

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

E. Shortfall Notes Payable

During the year ending June 30, 2005, \$40,000 of Shortfall Notes Payable were paid from the Shortfall Retirement Fund with the balance of \$115,000 paid from the District Maintenance Fund.

F. Qualified Zone Academy Bonds Payable

As more fully explained in Note 13, debt has been issued by the school district that qualifies as Qualified Zone Academy bonds. Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Limited tax note certificates of participation Series 2004	4.65%	1/15/2005	11/14/2014	\$ 1,000,000	\$ 1,000,000

G. 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.

PEARL RIVER COUNTY SCHOOL DISTRICT

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

(7) Defined Benefit Pension Plan

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

Funding Policy- PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2005, 2004, and 2003 were \$907,191, \$830,275, and \$738,175, respectively which equaled the required contributions for each year.

(8) Other Commitments

Commitments under construction contracts are described in Note 5.

(9) Sixteenth Section Lands

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

Year Ending <u>June 30</u>	<u>Amount</u>
2006	\$ 94,793
2007	89,575
2008	77,196
2009	74,397
2010	74,397
2011-2015	448,444
2016-2020	448,444
2021-2025	448,444
2026-2030	<u>448,442</u>
Total	<u>\$ 2,204,132</u>

(10) Prior Period Adjustments/Exhibits

A summary of significant fund equity adjustments is as follows:

Exhibit B – Statement of Activities

<u>Explanation</u>	<u>Amount</u>
1. To correct a prior year error in recording an asset or liability.	<u>\$4,100</u>

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

<u>Explanation</u>	<u>Amount</u>
1. To correct a prior year error in recording an asset or liability.	<u>\$4,100</u>

(11) Risk Management

The school district is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. 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.

PEARL RIVER COUNTY SCHOOL DISTRICT

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

(12) Trust Certificates

A trust agreement dated April 11, 1994, 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 \$700,000. Approximately \$665,000 was used to provide financing for the construction and renovation of school buildings and related facilities and equipment (the "project"); the remainder of approximately \$35,000 was used to pay the cost of issuance.

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

It is not anticipated the project will have sufficient value to satisfy the certificates in the event the school district defaults under the lease; therefore, the source of payment of the certificates is the responsibility of the school district. See Note 6 for details regarding the debt service requirement on the trust certificates.

Using the guidance provided in Section 2100 of the *Codification of Governmental Accounting and Financial Reporting Standards* dealing with defining the reporting entity, the trust accounts created by this trust agreement were deemed to constitute an inseparable part of the school district. Therefore, the assets, liabilities, equity, revenues, expenditures and other financing sources/uses of the trust accounts created by this trust agreement are part of the school district's financial statements, thereby eliminating the effects of the lease agreement for financial reporting purposes.

(13) 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 various individuals and other entities, has entered into such an arrangement dated November 18, 2004.

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 November 5 of each year through 2009. 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
2005	\$ 360,000
2006	62,925
2007	62,925
2008	62,925
2009	62,925
2010	62,925
Total	\$ 674,625

(14) Investigations

During the June 30, 2003 year end, the District identified several unusual transactions and missing documents and assets. These matters have been referred to the Investigative Division of the Office of the State Auditor. The ongoing investigations should have no effect on the June 30, 2005 financial statements.

(15) Subsequent Events

On August 29, 2005, Hurricane Katrina passed through the State of Mississippi. The School District suffered significant damage to many of its facilities during this hurricane. An estimate of the amount of loss to the district is not determinable at this time.

**PEARL RIVER COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION**

PEARL RIVER COUNTY SCHOOL DISTRICT
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2005

Schedule 1

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 3,707,389	\$ 3,786,504	\$ 3,797,598	\$ 79,115	\$ 11,094
State sources	10,184,552	10,264,839	10,266,338	80,287	1,499
Federal sources	53,498	76,458	88,993	22,960	12,535
Total Revenues	13,945,439	14,127,801	14,152,929	182,362	25,128
Expenditures:					
Instruction	9,114,422	8,798,385	8,791,864	316,037	6,521
Support services	4,504,984	4,549,907	4,429,162	(44,923)	120,745
Noninstructional services	39,500	46,239	33,546	(6,739)	12,693
Facilities acquisition and construction	140,000	86,511	84,921	53,489	1,590
Debt service:					
Principal	-	315,000	430,000	(315,000)	(115,000)
Interest	-	-	443	-	(443)
Total expenditures	13,798,906	13,796,042	13,769,936	2,864	26,106
Excess (deficiency) of revenues over expenditures	146,533	331,759	382,993	185,226	51,234
Other financing sources (uses):					
Proceeds of loans	-	116,233	115,000	116,233	(1,233)
Insurance loss recoveries	5,000	9,591	9,591	4,591	-
Sale of transportation equipment	2,000	-	-	(2,000)	-
Sale of other property	4,000	-	-	(4,000)	-
Operating transfers in	909,698	791,024	849,711	(118,674)	58,687
Operating transfers out	(1,226,231)	(1,413,952)	(1,495,108)	(187,721)	(81,156)
Total Other Financing Sources (Uses)	(305,533)	(497,104)	(520,806)	(191,571)	(23,702)
Net Change in Fund Balances	(159,000)	(165,345)	(137,813)	(6,345)	27,532
Fund Balances					
July 1, 2004	2,417,024	2,417,024	2,956,315	-	539,291
June 30, 2005	\$ 2,258,024	\$ 2,251,679	\$ 2,818,502	\$ (6,345)	\$ 566,823

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

Notes to the Required Supplementary Information

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 consistent with accounting principles generally accepted in the United States of America.

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

Schedule 2

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	\$ 66,968
Child nutrition cluster:		
School breakfast program	10.553	167,794
National school lunch program	10.555	518,198
Total child nutrition cluster		<u>685,992</u>
Total U.S. Department of Agriculture		<u>752,960</u>
<u>Federal Communications Commission</u>		
Direct Program:		
Administered through the Universal Service Administrative Company		
The schools and libraries program of the Universal Service Fund	32.XXX	22,605
Total Federal Communications Commission		<u>22,605</u>
<u>U.S. Department of Defense</u>		
Direct program:		
Reserve Officers' Training Corps	12.XXX	66,347
Total U.S. Department of Defense		<u>66,347</u>
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	552,394
Vocational education - basic grants to states	84.048	31,412
Safe and drug free schools and communities - state grants	84.186	11,223
State grants for innovative programs	84.298	11,405
Education technology state grants	84.318	26,685
Rural education	84.358	108,226
Improving teacher quality - state grants	84.367	148,180
Total Special Education Cluster		<u>889,525</u>
Special education cluster:		
Special education - grants to states	84.027	401,264
Special education - preschool grants	84.173	26,576
Total Special Education Cluster		<u>427,840</u>
Total passed-through Mississippi Department of Education		<u>1,317,365</u>
Total U.S. Department of Education		<u>1,317,365</u>
Total for all federal awards		<u>\$ 2,159,277</u>

NOTES TO SCHEDULE

1. This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the financial statements.
2. The expenditure amounts include transfers out.
3. The pass-through entities did not assign identifying numbers to the school district.

PEARL RIVER COUNTY SCHOOL DISTRICT**Schedule 3****Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds****For the Year Ended June 30, 2005**

<u>Expenditures</u>	<u>Total</u>	<u>Instruction</u>	<u>Administrative</u>	<u>Other</u>
Salaries and fringe benefits	\$ 12,248,119	\$ 8,944,171	\$ 1,441,340	\$ 1,862,608
Other	<u>7,949,452</u>	<u>1,304,841</u>	<u>433,055</u>	<u>6,211,556</u>
Total	<u>\$ 20,197,571</u>	<u>\$ 10,249,012</u>	<u>\$ 1,874,395</u>	<u>\$ 8,074,164</u>
Total number of students	<u>2,847</u>	<u>2,847</u>	<u>2,847</u>	<u>2,847</u>
Cost per student	<u>\$ 7,094</u>	<u>\$ 3,600</u>	<u>\$ 658</u>	<u>\$ 2,836</u>

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 (2300s); support services - school administration (2400s); support services - business (2500s).

Other - includes all expenditure functions not included in instruction or administrative. Include 100 or 200 range object codes on the salaries and fringe benefits line; all other expenditures on the "other" line.

PEARL RIVER COUNTY SCHOOL DISTRICT
REPORTS ON COMPLIANCE AND INTERNAL CONTROL

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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**

October 2, 2006

Superintendent and School Board
Pearl River County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Pearl River County School District as of and for the year ended June 30, 2005, which collectively comprise the Pearl River County School Districts basic financial statements and have issued our report thereon dated October 2, 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.

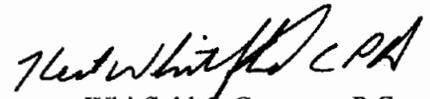
Internal Control over Financial Reporting

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 opinions 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 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 disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that we have reported to management of the school district in a separate letter.

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.



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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

October 2, 2006

Superintendent and School Board
Pearl River County School District

Compliance

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

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

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

Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgement, could adversely affect the school district's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the Schedule of Findings and Questioned Costs as Findings 05-01, 05-02, 05-03, 05-04, 05-05, 05-06 and 05-07.

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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described in the findings referred to above are 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.


Whitfield & Company P.C.
Certified Public Accountants

PEARL RIVER COUNTY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH STATE LAWS AND REGULATIONS

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

October 2, 2006

Superintendent and School Board
Pearl River County School District

We have audited the financial statements of governmental activities, each major fund and the aggregate remaining fund information of the Pearl River County School District as of and for the year ended June 30, 2005, which collectively comprise Pearl River County School District's basic financial statements and have issued our report thereon dated October 2, 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 two instances of noncompliance. The noncompliance is reported in findings number 1 and 2 below. The district reported \$7,878 of classroom supply funds carried over from previous years.

State Compliance

1. Finding:

We noted that Education Enhancement Funds were not allocated equally to all teachers.

Recommendation:

As required by Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), we recommend that Education Enhancement Funds be allocated equally to all teachers.

School District's Response:

The district agrees and will comply with this recommendation.

2. Finding:

In our test of Education Enhancement Funds, we noted that the records maintained at the local schools to track these funds were inadequate.

Recommendation:

We recommend the district follow the State Board Policy regarding the information pertaining to Education Enhancement Funds that is required to be maintained at the schools.

School District's Response:

The District agrees and will comply with this recommendation.

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 instances of noncompliance with other state laws and regulations. Our findings and recommendations and your responses are as follows:

3. Finding:

Section 29-3-119, Miss. Code Ann. (1972) requires that 16th section revenues be allocated between school districts where a township is occupied by two or more districts. During the audit we noted that the amounts actually allocated and paid to other districts did not agree with the amounts that should have been allocated per district records.

Recommendation:

We recommend that amounts allocated and paid to other districts be reconciled to district records.

School Districts Response:

In the future the district will be sure all amounts allocated to other districts agree with amounts recorded in district records.

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.



Whitfield & Company, P.C.
Certified Public Accountant

**SCHEDULE OF FINDINGS AND
QUESTIONED COSTS**

PEARL RIVER COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

Section 1: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|---|----------------------------|
| 1. | Type of auditor's report issued on the financial statements: | <u>unqualified opinion</u> |
| 2. | Material noncompliance relating to the financial statements? | <u>no</u> |
| 3. | Internal control over financial reporting: | |
| a. | Material weakness(es) identified? | <u>no</u> |
| b. | Reportable condition(s) identified that are not considered to be material weaknesses? | <u>no</u> |

Federal Awards

- | | | |
|-----|---|----------------------------|
| 4. | Type of auditor's report issued on compliance for major federal programs: | <u>unqualified opinion</u> |
| 5. | Internal control over major programs: | |
| a. | Material weakness(es) identified? | <u>yes</u> |
| b. | Reportable condition(s) identified that are not considered to be material weaknesses? | <u>no</u> |
| 6. | Any audit finding(s) reported as required by Section ____ .510(a) of Circular A-133? | <u>yes</u> |
| 7. | Federal programs identified as major programs: | |
| a. | Cluster: <u>Child Nutrition Cluster</u> | |
| | CFDA #: <u>10.553</u> | |
| | CFDA #: <u>10.555</u> | |
| b. | Cluster: <u>Special Education Cluster</u> | |
| | CFDA #: <u>84.027</u> | |
| | CFDA #: <u>84.173</u> | |
| c. | <u>Title I grants to local educational agencies - CFDA # 84.010</u> | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | <u>\$300,000</u> |
| 9. | Auditee qualified as low-risk auditee? | <u>no</u> |
| 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? | <u>yes</u> |

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

Reportable Conditions considered to be material weaknesses:

PEARL RIVER COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

05-01 Finding:

Compliance requirement: Equipment and real property management

Program: Child Nutrition Cluster: National School Lunch Program CFDA # 10.555, School Breakfast Program CFDA # 10.553; U.S. Department of Agriculture; pass through the Mississippi Department of Education.

In our test of internal control over the equipment and real property management requirement, no documentation was available to indicate that fixed asset records maintained by Child Nutrition Cluster programs had been reconciled to the financial records of the District.

Recommendation:

We recommend the Nutrition Cluster equipment listing be reconciled to the fixed asset listing maintained by the District.

05-02 Finding:

Compliance requirements: Program Income

Program: Child Nutrition Cluster: National School Lunch Program CFDA # 10.555, School Breakfast Program CFDA # 10.553; U.S. Department of Agriculture, pass through the Mississippi Department of Education.

In our test of program income, the District was not able to locate complete documentation for five of the nine dates selected for testing.

Recommendation:

We recommend the District maintain all source documentation related to breakfast and lunch counts.

05-03 Finding:

Compliance Requirement: Reporting

Program: Child Nutrition Cluster: National School Lunch Program CFDA # 10.555, School Breakfast Program CFDA # 10.553; U.S. Department of Agriculture; pass through the Mississippi Department of Education.

In our test of reporting requirements, it was noted that totals as submitted electronically to the state, for the year end 2005 financial statement for child nutrition cluster programs, did not agree with the district records.

Recommendation:

We recommend all reports be reconciled to district records before they are submitted.

05-04 Finding:

Compliance requirement: Equipment and real property management

Program: Special Education Cluster: Special Education - Grants to States CFDA # 84.027, Special Education - Preschool Grants CFDA # 84.173 U.S. Department of Education; pass through the Mississippi Department of Education.

In our test of internal control over the equipment and real property management requirement, we noted the District did not maintain an adequate equipment listing for Special Education Cluster equipment. Also, no documentation was available to indicate that a comparison was made of Special Education Cluster equipment to the financial records.

PEARL RIVER COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

Section 3: Federal Award Findings and Questioned Costs - continued

Recommendation:

We recommend that property records containing all information required by program regulations be maintained. The District should also reconcile Special Education Cluster equipment records to District records and maintain documentation of this reconciliation.

05-05 Finding:

Compliance Requirement: Reporting

Program: Special Education Cluster: Special Education - Grants to States CFDA # 84.027, Special Education - Preschool Grants CFDA # 84.173; U.S. Department of Education; pass through the Mississippi Department of Education.

In our test of request for reimbursement, there was no indication that request had been reviewed by the Business Manager prior to them being submitted.

Recommendation:

We recommend all requests for reimbursement be reviewed by the Business Manager prior to them being submitted.

05-06 Finding:

Compliance Requirement: Equipment and Real Property Management

Program: Title I grants to local educational agencies CFDA # 84.010

In our test of internal control over the equipment and real property management requirement, no documentation was available to indicate that fixed asset records maintained by the Title I Program had been reconciled to the financial records of the District.

Recommendation:

We recommend that Title I fixed asset records be reconciled to District records and that documentation of this reconciliation be maintained.

05-07 Finding

Compliance Requirement: Reporting

Program: Title I grants to local educational agencies CFDA # 84.010

In our test of request for reimbursement, there was no indication that request had been reviewed by the Business Manager prior to them being submitted.

Recommendation:

We recommend all requests for reimbursement be reviewed by the Business Manager prior to them being submitted.

Pearl River County

DENNIS PENTON
Superintendent of Education

7441 Highway 11
Carriere, Mississippi 39426

MEGAN ST. CLAIR
Business Administrator

NINA GUTHRIE
Assistant Superintendent

(601) 798-7744
FAX: (601) 798-3527

MELISSA HOLSTON
Special Services Director

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

Finding

Corrective Action Plan Details

- | | |
|-------|---|
| 05-01 | <ul style="list-style-type: none">a. Glenda Harbeson, Purchasing Agent, and Sheila Amacker, Food Service Director may be contacted by dialing 601-798-7744, ext. 25(Harbeson) or 601-798-5682(Amacker).b. Food service equipment will continue to be maintained separately for each cafeteria and will be reconciled to the district's financial records.c. Corrective action will be in place by December 1, 2006. |
| 05-02 | <ul style="list-style-type: none">a. Sheila Amacker, Food Service Director, may be contacted by dialing 601-798-5682.b. The Food Service Director will communicate with key personnel the importance of maintaining complete source documentation related to daily breakfast and lunch counts.c. Corrective action will be in place by December 1, 2006. |
| 05-03 | <ul style="list-style-type: none">a. Megan St. Clair, Business Manager, and Sheila Amacker, Food Service Director may be contacted by dialing 601-798-7744, ext. 29 (St. Clair) or 601-798-5682 (Amacker).b. All reports for the child nutrition cluster program programs will be reconciled to the district's financial records before being submitted to the state.c. Corrective action will be in place by December 1, 2006. |

05-04

- a. Glenda Harbeson, Purchasing Agent, and Melissa Holston, Special Education Director, may be contacted by dialing 601-798-7744, ext.25 (Harbeson) or 601-798-1912 (Holston).
- b. Equipment listing will be reviewed and any required information will be included in the documentation. Documentation of the reconciliation process will be updated and the special education department's fixed asset inventory list will be reconciled to the district's financial records.
- c. Corrective action will be in place by December 1, 2006.

05-05

- a. Megan St. Clair, Business Manager, may be contacted by dialing 601-798-7744, ext. 29..
- b. All request for reimbursement for Special Education Programs are reviewed and submitted to the State by the Business Manager.
- c. Corrective action is presently in place.

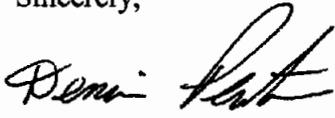
05-06

- a. Glenda Harbeson, Purchasing Agent, and Nina Guthrie, Assistant Superintendent, may be contacted by dialing 601-798-7744, ext.25 (Harbeson) or ext. 28 (Guthrie).
- d. Equipment listing will be reviewed and any required information will be included in the documentation. Documentation of the reconciliation process will be updated and the Title I fixed asset inventory list will be reconciled to the district's financial records.
- c. Corrective action will be in place by December 1, 2006

05-07

- a. Megan St. Clair, Business Manager, may be contacted by dialing 601-798-7744, ext. 29.
- b. All request for reimbursement for Title I and other Title Grants are reviewed and submitted to the State by the Business Manager.
- e. Corrective action is presently in place.

Sincerely,



Dennis Penton
Superintendent of Education

Pearl River County

DENNIS PENTON
Superintendent of Education

7441 Highway 11
Carriere, Mississippi 39426

MEGAN ST. CLAIR
Business Administrator

NINA GUTHRIE
Assistant Superintendent

(601) 798-7744
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MELISSA HOLSTON
Special Services Director

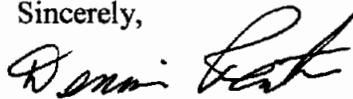
Financial and Compliance Audit Division

As required by Section __.315(b) of OMB Circular A-133, the Pearl River County School District has prepared and hereby submits the following summary schedule of prior audit findings of June 30, 2004.

Finding

- 98-7 Child nutrition equipment is being maintained on a separate listing which now contains all required information. Child nutrition equipment will be reconciled to the district's financial records. A similar finding was noted in June 30, 1999 as finding 99-6; in June 30, 2000 as finding 2000-6; in June 30, 2001 as finding 2001-1; in June 30, 2002 as finding 02-2; in June 30, 2003 as finding 03-06; in June 30, 2004 as finding 04-02; in June 30, 2005 as finding 05-01. Corrective action will be in place by December 1, 2006.
- 02-03 Special education equipment is being maintained on a separate listing which now contains all required information. Special education equipment will be reconciled to the district's financial records. A similar finding was noted in June 30, 2003 as finding 03-08; in June 30, 2004 as finding 04-03; and in June 30, 2005 as finding 05-04. Corrective action will be in place by December 1, 2006.
- 04-01 Corrective action was taken.

Sincerely,



Dennis Penton
Superintendent of Education