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PICAYUNE SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2005

PICAYUNE SCHOOL DISTRICT

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Scotty McDaniel, CPA

MEMBER

Mississippi Society
of Certified Public
Accountants

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

June 20, 2006

Superintendent and School Board
Picayune School District

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Picayune School District as of and for the year ended June 30, 2005, which collectively comprise the Picayune School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Picayune 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 Picayune 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 June 20, 2006, on our consideration of the Picayune School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages (3) through (9) and the Budgetary Comparison Schedule and corresponding notes on pages (31) through (32) 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 it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Picayune School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. In addition, the Schedule of Instructional, Administrative and Other Expenditures – Governmental Funds is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

McDaniel CPA Firm

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The discussion and analysis of the Picayune 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.

FINANCIAL HIGHLIGHTS

- Total net assets decreased \$721,876, which represents a 10.07 % decrease from fiscal year 2004.
- General revenues account for \$21,439,470 in revenue, or 75% of all revenues. Program specific revenues in the form of charges for services, grants and contributions accounted for \$7,160,372 or 25% of total revenues.
- The District had \$29,321,726 in expenses; only \$7,160,372 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$21,439,470 were adequate to provide for these programs.
- Among major funds, the General Fund had \$20,511,329 in revenues and \$20,909,586 in expenditures. The General Fund's fund balance increased \$635,300 over the prior year.
- Capital assets, net of accumulated depreciation, increased by \$308,291.
- Long-term debt increased by \$1,891,087.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

The statement of net assets presents information on all the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years.

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

The government-wide financial statements can be found on pages 10 - 11 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 13 and 15, 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 12 - 15 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 16.

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 18 - 30 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 pages 31- 32 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on page 33 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$6,439,618 as of June 30, 2005.

The largest portion of the District's net assets (57%) 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 year ended June 30, 2005.

Condensed Statement of Net Assets

	<u>2005</u>	<u>2004</u>	<u>Total Percentage Change 2004-2005</u>
Current Assets	4,527,489	3,714,512	21.89%
Capital Assets, Net	7,990,837	7,682,547	4.01%
Total Assets	<u>12,518,326</u>	<u>11,397,059</u>	<u>9.84%</u>
Current Liabilities	1,562,618	2,426,989	-35.61%
Long-term debt outstanding	4,516,090	1,808,575	149.70%
Total Liabilities	<u>6,078,708</u>	<u>4,235,564</u>	<u>43.52%</u>
Net Assets:			
Invested in capital assets, net of related debt	3,648,729	5,223,151	-30.14%
Restricted	880,613	967,316	-8.96%
Unrestricted	1,910,276	971,027	96.73%
Total Net Assets	<u>6,439,618</u>	<u>7,161,494</u>	<u>-10.08%</u>

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

- The principal retirement of \$1,571,937 of long-term debt.
- The addition of \$2,290,532 in capital assets from new construction.

Changes in net assets. The District's total revenues for the fiscal year ended June 20, 2005 were \$28,599,842. The total cost of all programs and services was \$29,321,726. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2005.

	<u>Changes in Net Assets</u>		<u>Total Percentage Change 2004-2005</u>
	<u>2005</u>	<u>2004</u>	
Revenues:			
Program Revenues	7,160,372	6,445,138	11.10%
General Revenues	21,439,470	20,932,113	2.42%
Total Revenues	<u>28,599,842</u>	<u>27,377,251</u>	<u>4.47%</u>
Expenses			
Instruction	15,992,343	15,687,623	1.94%
Support Services	11,561,980	9,820,339	17.74%
Non-instructional	1,606,095	1,709,655	-6.06%
Sixteenth Section	33,819	23,836	41.88%
Interest in long-term liabilities	127,489	104,998	21.42%
Total Expenses	<u>29,321,726</u>	<u>27,346,451</u>	<u>7.22%</u>
Increase in Net Assets	<u>(721,884)</u>	<u>30,800</u>	<u>-2443.78%</u>

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

	<u>Net Cost of Governmental Activities</u>			
	<u>Total Expenses</u>		<u>Net (Expense) Revenue</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Instruction	15,992,343	15,687,623	(12,817,119)	(12,540,983)
Support Services	11,561,980	9,820,339	(9,196,835)	(8,214,698)
Non-instructional	1,606,095	1,709,655	13,908	(117,129)
Sixteenth Section	33,819	23,836	(33,819)	76,495
Interest in long-term liabilities	127,489	104,998	(127,489)	(104,998)
Total	<u>29,321,726</u>	<u>27,346,451</u>	<u>(22,161,354)</u>	<u>(20,901,313)</u>

- Net cost of governmental activities (\$22,161,354), was financed by general revenue, which is made up of primarily property taxes \$6,101,363 and state revenues \$14,407,368.
- Investment earnings accounted for \$109,823 of funding.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$2,996,316, an increase of \$879,164 due primarily to the issuance of debt. \$2,510,758 or 84% 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 \$485,558 or 16% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$625,300, a result of the issuance of debt. The fund balance of Other Governmental Funds also showed an increase due primarily to the increase on the capital projects and debt service funds.

BUDGETARY HIGHLIGHTS

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

- Budget amounts for revenue from state sources was increased for Mississippi Adequate Education. The original budgeted amounts underestimated slightly for potential cuts by the Mississippi legislature. This was done upon suggestion of the Mississippi Department of Education.
- Budgeted amounts for support services expenditures were decreased due primarily to a reduction in services as a result of reduced revenues.

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 \$13,086,016, including school buildings, buses, other school vehicles, and furniture and equipment. This amount represents an increase of \$695,040 from the previous year. Total accumulated depreciation as of June 30, 2005 was \$5,095,179 and total depreciation expense for the year was \$451,536, resulting in total net assets of \$7,990,837.

Additional information of the District's capital assets can be found in Note 4 on page 24 of this report.

Debt Administration. At June 30, 2005, the District had \$4,516,090 in general obligation bonds and other long-term debt outstanding, of which \$1,027,093 is due within one year.

The District's bonds are non-rated.

Additional information of the District's long-term debt can be found in Note 5 on page 25 of this report.

CURRENT ISSUES

The Picayune School District is financially stable and is proud of the community support of its public schools. The District has committed itself to financial excellence for many years. The millage has reached the 55 mill limit, but it will not be exceeded. In addition, the District's system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

Latest enrollment figures indicate that student enrollment in the District should remain in the 3700-3800 range over the next few years. The budget for the next fiscal year has taken into account this enrollment both for funding and staffing needs.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Picayune School District, 706 Goodyear Blvd, Picayune, MS 39466.

BASIC FINANCIAL STATEMENTS

PICAYUNE SCHOOL DISTRICT
Statement of Net Assets
June 30, 2005

Exhibit A

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
Assets:	
Cash and cash equivalents (Note 2)	\$ 2,849,817
Due from other governments	1,460,741
Other receivables, net	12,565
Inventories and prepaid items	170,190
Restricted assets	34,176
Capital assets, net (Note 4)	7,990,837
 Total Assets	 <u>12,518,326</u>
Liabilities:	
Accounts payable and accrued liabilities	1,531,173
Interest payable on long-term liabilities	31,445
Long-term liabilities (Due within one year):(Note 5)	
Capital related liabilities	1,032,602
Non-capital related liabilities	
Long-term liabilities (Due beyond one year):(Note 5)	
Capital related liabilities	3,309,506
Non-capital related liabilities	173,982
 Total Liabilities	 <u>6,078,708</u>
Net Assets:	
Investments in capital assets (net of related debt)	3,648,729
Restricted net assets:	
Expendable:	
School-based activities	805,182
Unemployment benefits	41,256
Non-expendable:	
Sixteenth section	34,175
Unrestricted	1,910,276
 Total Net Assets	 <u>\$ 6,439,618</u>

PICAYUNE SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2005

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government: Governmental Activities:					Primary Government Governmental Activities
Instruction	\$ 15,992,343	311,782	2,852,309	11,133	\$ (12,817,119)
Support Services	11,561,980	224,246	1,733,491	407,408	(9,196,835)
Non-instructional Sixteenth section	1,606,095	430,578	1,183,051	6,374	13,908
Interest on long-term liabilities	33,819				(33,819)
	127,489				(127,489)
Total governmental activities	\$ 29,321,726	966,606	5,768,851	424,915	(22,161,354)
General Revenues:					
Taxes:					
					5,173,378
General purpose levies					927,985
Debt purpose levies					
Unrestricted grants and contributions:					
State					14,407,368
Federal					103,862
Unrestricted investment earnings					109,823
Sixteenth section sources					129,087
Other					587,967
Total General Revenues					21,439,470
Change in Net Assets					(721,884)
Net Assets - Beginning					7,161,494
Increase (Decrease) in reserve for inventory					8
Net Assets - Ending					\$ 6,439,618

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

PICAYUNE SCHOOL DISTRICT
 Balance Sheet - Governmental Funds
 June 30, 2005

Exhibit C

	<u>Major Fund</u>		Total Governmental Funds
	<u>General Fund</u>	<u>Other Governmental Funds</u>	
ASSETS			
Cash and cash equivalents (Note 2)	\$ 1,360,501	1,523,492	\$ 2,883,993
Due from other government	510,757	949,984	1,460,741
Other receivables, net		12,565	12,565
Due from other funds (Note 3)	536,159	30,000	566,159
Inventories and prepaid items	155,893	14,297	170,190
Total Assets	<u>2,563,310</u>	<u>2,530,338</u>	<u>5,093,648</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	113,168	67,388	180,556
Due to other funds (Note 3)	1,099,156	817,620	1,916,776
Total Liabilities	<u>1,212,324</u>	<u>885,008</u>	<u>2,097,332</u>
Fund Balances:			
Reserved for:			
Inventory		14,297	14,297
Prepaid items	155,893		155,893
Debt service		239,936	239,936
Unemployment benefits		41,256	41,256
Permanent fund purposes		34,176	34,176
Unreserved:			
Undesignated, reported in:			
General fund	1,195,093		1,195,093
Special Revenue funds		1,114,168	1,114,168
Capital projects funds		201,497	201,497
Total Fund Balances	<u>1,350,986</u>	<u>1,645,330</u>	<u>2,996,316</u>
Total Liabilities and Fund Balances	<u>\$ 2,563,310</u>	<u>2,530,338</u>	<u>\$ 5,093,648</u>

PICAYUNE SCHOOL DISTRICT

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2005

Exhibit C-1

	<u>Amount</u>
Total fund balance - governmental funds	\$ 2,996,316
Amount reported for governmental activities in the statement of net assets are different because:	
1. Capital assets are used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$ 5,095,179.	7,990,837
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(4,516,090)
3. Governmental funds recognize interest on long-term debt when it becomes due, however the Statement of Net Assets recognizes interest as it accrues.	(31,445)
Total net assets - governmental activities	<u>\$ 6,439,618</u>

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

Exhibit D

	<u>Major Fund</u>		<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Other Governmental Funds</u>	
Revenues:			
Local sources	\$ 5,930,918	1,782,025	\$ 7,712,943
State sources	14,476,539	1,603,941	16,080,480
Federal sources	103,872	4,520,653	4,624,525
Sixteenth section sources		136,518	136,518
Total Revenues	<u>20,511,329</u>	<u>8,043,137</u>	<u>28,554,466</u>
Expenditures:			
Instruction	12,357,726	3,457,031	15,814,757
Support services	7,680,900	4,106,232	11,787,132
Noninstructional services		1,592,576	1,592,576
Sixteenth section		12,877	12,877
Facilities acquisition and construction		286,818	286,818
Debt service:			
Principal	851,937	720,000	1,571,937
Interest	19,023	90,215	109,238
Total Expenditures	<u>20,909,586</u>	<u>10,265,749</u>	<u>31,175,335</u>
Excess (deficiency) of revenues over expenditures	<u>(398,257)</u>	<u>(2,222,612)</u>	<u>(2,620,869)</u>
Other Financing Sources:			
Proceeds of loans	954,649	2,500,000	3,454,649
Insurance loss recoveries	45,384	-	45,384
Operating transfers in	4,042,795	1,272,119	5,314,914
Operating transfers out	(4,009,271)	(1,305,643)	(5,314,914)
Total Other Financing Sources (Uses)	<u>1,033,557</u>	<u>2,466,476</u>	<u>3,500,033</u>
Net change in fund balances	<u>635,300</u>	<u>243,864</u>	<u>879,164</u>
Fund Balances:			
July 1, 2004	725,686	1,391,458	2,117,144
Prior period adjustment	(10,000)	10,000	-
July 1, 2004, as restated	<u>715,686</u>	<u>1,401,458</u>	<u>2,117,144</u>
Increase in reserve for inventory		8	8
June 30, 2005	<u>\$ 1,350,986</u>	<u>1,645,330</u>	<u>\$ 2,996,316</u>

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

PICAYUNE SCHOOL DISTRICT

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

Exhibit D-1

	<u>Amount</u>
Net change in fund balances - governmental funds	\$ 879,164
Amounts reported for governmental activities in the statement of activities are different because:	
1. Governmental funds report capital outlays as expenditures while the governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchase amounted to \$ 765,138 and the depreciation expense amounted to \$ 451,536. (Note 4)	313,602
2. Proceeds of long-term liabilities are reported as expenditures in the governmental funds, but is deferred and amortized in the statement of activity. (Note 5)	(3,454,649)
3. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of activity. (Note 5)	1,571,937
4. Expenses in the statement of activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds: Compensated absences	(8,375)
5. Governmental funds recognize interest on long-term debt when it becomes due, however, the statement of activities recognizes interest as it accrues regardless of when it becomes due.	(18,260)
6. Gains and losses on sale or disposals of assets are not reported in the governmental funds, but are reported in the statement of activity.	(5,311)
7. Increase (decrease) in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are (decreased) increased in the Statement of Activities.	8
Change in net assets of governmental activities	<u>\$ (721,884)</u>

PICAYUNE SCHOOL DISTRICT
Statement of Net Assets - Fiduciary Funds
June 30, 2005

Exhibit E

	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash and cash equivalents (Note 2)	81,322	74,850
Due from other funds (Note 3)		1,350,617
Total Assets	<u>81,322</u>	<u>1,425,467</u>
Liabilities		
Accounts payable and accrued liabilities		1,351,259
Due to student clubs		74,208
Total Liabilities	<u>-</u>	<u>1,425,467</u>
Net Assets		
Reserved for endowments	81,322	
Total Net Assets	<u>81,322</u>	

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

Exhibit F

	<u>Private-Purpose Trust Funds</u>
Additions	
Interest on Investments	\$ 3,055
Contributions and donations from private sources	4,265
Total Additions	<u>7,320</u>
Deductions	
Scholarship awarded	3,950
Total Deductions	<u>3,950</u>
Change in net assets	<u>3,370</u>
Net Assets	
July 1, 2004	77,952
July 30, 2005	<u><u>81,322</u></u>

NOTES TO FINANCIAL STATEMENTS

PICAYUNE SCHOOL DISTRICT

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

(1) Summary of Significant Accounting Policies.

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

A. Financial Reporting Entity.

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

B. Basis of Presentation.

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

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

C. Measurement Focus and Basis of Accounting.

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting as are the Fiduciary Fund financial statements. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. 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.

PICAYUNE SCHOOL DISTRICT

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

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

The school district reports the following major governmental funds:

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

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related cost. The primary revenue source is revenue received from the State of Mississippi under the authority of the Mississippi Accountability and Adequate Education Program Act, Sections 37-151-1 through 37-151-7, Mississippi Code Annotated, (1972). Other revenue consists of local property taxes levied specifically for debt service.

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

FIDUCIARY FUNDS

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

E. Encumbrances.

PICAYUNE SCHOOL DISTRICT

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

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

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

	<u>Capitalization Policy</u>	<u>Estimated Useful Life</u>
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	3-5 years

PICAYUNE SCHOOL DISTRICT

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

Leased property under capital leases * *

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

J. Long-term liabilities.

Long-term liabilities are the unmatured principal of bonds, warrants, notes, or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments. 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 5 for details.

K. Interfund Transactions and Balances.

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

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

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

Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 3 for details for interfund transactions, including receivables and payables at year-end.

L. Equity Classifications.

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

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

PICAYUNE SCHOOL DISTRICT

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

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

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

N. Mississippi Adequate Education Program Revenues.

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

O. Compensated Absences.

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

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

(1-A) Changes in Accounting Standards.

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

(2) Cash and Cash Equivalents.

The collateral for public entities' deposits in financial institutions is now held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-

PICAYUNE SCHOOL DISTRICT

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

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 \$ 2,883,993 and \$ 156,172, respectively. The carrying amount of deposits reported in the government-wide financial statements was: Cash and Cash Equivalents - \$ 2,849,817 and Restricted Assets - \$ 34,176. 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 \$ 4,156,431 .

Custodial Credit Risk – Deposits. Custodial credit risk is defined as the risk that, in the event of a financial institutions failure, the district's deposits may not be returned to it. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages the risk on behalf of the district. As of June 30, 2005, none of the district's bank balance of \$ 4,156,431 was exposed to custodial credit risk.

(3) **Interfund Transactions and Balances.**

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

	<u>Due From</u>	<u>Due To</u>
Governmental Funds:		
General fund	\$ 536,159	1,099,156
Other governmental funds	30,000	817,620
Fiduciary funds	<u>1,350,617</u>	
Total Funds	<u>\$ 1,916,776</u>	<u>1,916,776</u>

The purpose of interfund loans was due to federal funds not received until after 6/30/2005.

C. Transfers In/Out.

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
General fund	\$ 4,042,795	4,009,271
Other governmental funds	1,272,119	1,305,643
Total Funds	<u>\$ 5,314,914</u>	<u>5,314,914</u>

The purpose of transfers in and transfers out was for debt service and standard operations.

PICAYUNE SCHOOL DISTRICT

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

(4) Capital Assets.

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

	Balance 7/1/2004	Additions	Retirements	Completed Construction	Adjustments	Balance 6/30/2005
<u>Non-depreciable capital</u>						
Land	\$ 261,615	33,180				294,795
Construction in progress	2,055,794	234,738		(2,290,532)		-
Total non-depreciable	2,317,409	267,918	-	(2,290,532)	-	294,795
<u>Depreciable capital assets</u>						
Buildings	6,611,414			1,785,039		8,396,453
Building improvements	84,626					84,626
Improvements other than buildings	252,633			505,493		758,126
Mobile equipment	2,342,194	316,127	(51,232)			2,607,089
Furniture and equipment	753,681	181,093	(18,866)			915,908
Leased property under capital leases	29,019					29,019
Total depreciable capital	10,073,567	497,220	(70,098)	2,290,532	-	12,791,221
<u>Less accumulated:</u>						
Buildings	2,742,011	137,285				2,879,296
Building improvements	6,770	3,385				10,155
Improvements other than buildings	59,043	30,325				89,368
Mobile equipment	1,486,371	148,025	(46,109)			1,588,287
Furniture and equipment	367,076	128,785	(18,678)			477,183
Leased property under capital leases	47,159	3,731				50,890
Total accumulated depreciation	4,708,430	451,536	(64,787)	-	-	5,095,179
Total depreciable capital assets, net	5,365,137	45,684	(5,311)	2,290,532	-	7,696,042
Governmental activities capital assets, net	7,682,546	313,602	(5,311)	-	-	7,990,837

Depreciation expense was charged to the following governmental functions:

PICAYUNE SCHOOL DISTRICT

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

	<u>Amount</u>
Instruction	\$ 195,027
Support Services	236,339
Non-instructional	20,170
Total depreciation expense	<u>\$ 451,536</u>

(5) 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	\$ 2,205,000	\$ -	\$ (720,000)	1,485,000	735,000
B. Transportation notes payable	49,916		(24,309)	25,607	25,607
C. Three mill notes payable	-	1,500,000		1,500,000	50,000
D. Shortfall notes payable	-	204,649		204,649	65,663
E. Obligations under capital leases	204,480		(77,628)	126,852	70,133
F. Qualified zone academy bonds payable	-	1,000,000		1,000,000	80,690
G. Other loans payable	-	750,000	(750,000)	-	-
H. Compensated absences payable	<u>165,607</u>	<u>8,375</u>		<u>173,982</u>	<u>-</u>
Total	<u>\$ 2,625,003</u>	<u>\$ 3,463,024</u>	<u>\$ (1,571,937)</u>	<u>\$ 4,516,090</u>	<u>\$ 1,027,093</u>

A. General obligations bonds payable.

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

PICAYUNE SCHOOL DISTRICT

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

<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 bonds, refunding bonds, Series 1998	varies	2/1/1999	3/15/2007	\$ 4,915,000	1,485,000
Total				<u>\$ 4,915,000</u>	<u>1,485,000</u>

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	735,000	52,740	787,740
2007	750,000	27,750	777,750
Total	<u>\$ 1,485,000</u>	<u>\$ 80,490</u>	<u>\$ 1,565,490</u>

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 5.47% of property assessments as of October, 2004. This debt will be retired from the bond retirement fund.

The general obligation 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).

B. Transportation notes payable.

Debt currently outstanding is as follows:

Hancock Bank	varies	3/20/2000	3/20/2006	\$ 135,438	25,607
Total				<u>\$ 135,438</u>	<u>25,607</u>

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

PICAYUNE SCHOOL DISTRICT

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

Year Ending June 30	Principal	Interest	Total
2006	25,607	1,367	26,974
Total	<u>\$ 25,607</u>	<u>\$ 1,367</u>	<u>\$ 26,974</u>

This debt will be retired from the debt service fund.

C. Three mill notes payable.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Three mill note payable	2.7% - 4.2%	8/1/2004	8/1/2018	\$ 1,500,000	1,500,000
Total				<u>\$ 1,500,000</u>	<u>1,500,000</u>

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

Year Ending June 30	Principal	Interest	Total
2006	50,000	83,645	133,645
2007	87,000	53,623	140,623
2008	91,000	50,996	141,996
2009	95,000	48,041	143,041
2010	95,000	44,741	139,741
2011-2015	571,000	163,331	734,331
2016-2019	511,000	40,374	551,374
Total	<u>1,500,000</u>	<u>484,751</u>	<u>1,984,751</u>

This debt will be retired from the debt service fund.

D. Shortfall notes payable.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Shortfall note payable	3.84%	11/9/2004	11/9/2007	\$ 204,649	204,649
Total				<u>\$ 204,649</u>	<u>204,649</u>

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

PICAYUNE SCHOOL DISTRICT

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

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	65,663	7,859	73,522
2007	68,184	5,337	73,521
2008	70,802	2,719	73,521
Total	<u>204,649</u>	<u>15,915</u>	<u>220,564</u>

This debt will be retired from the debt service fund.

E. Obligations under capital leases.

The school district has entered into a lease agreement that qualifies as a capital lease for accounting purposes. Leased property under this lease is composed of light fixtures.

The various options available to the lessee for this lease are as follows:

1. The district may retire the lease early upon which time title will vest with the district.

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

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	70,133	4,587	74,720
2007	48,963	1,137	50,100
2008	7,756	165	7,921
Total	<u>\$ 126,852</u>	<u>\$ 5,889</u>	<u>\$ 132,741</u>

This debt will be retired from the general fund.

F. Qualified zone academy bonds payable.

As more fully explained in Note 11, debt has been issued by the school district that qualifies as Qualified Zone Academy bonds. Debt currently outstanding is as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Trustmark Bank series 2004	0%	8/12/2004	8/12/2014	\$ 1,000,000	1,000,000
Total				<u>\$ 1,000,000</u>	<u>1,000,000</u>

G. Other loans payable.

This debt was paid off in the current year.

H. Compensated absences payable.

PICAYUNE SCHOOL DISTRICT

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

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), Mississippi Code Annotated (1972). Compensated absences will be paid from the fund from which the employees' salaries are paid.

(6) **Defined Benefit Pension Plan.**

Plan Description. The school district contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing, multiple-employer, defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employee's Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, Mississippi 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 the school district is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2005, 2004, and 2003 were \$ 1,616,147, \$ 1,534,874 and \$ 1,392,263, respectively, which equaled the required contributions for each year.

(7) **Sixteenth Section Lands.**

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

Year Ending June 30	Amount
2006	81,353
2007	81,353
2008	81,353
2009	81,353
2010	63,853
2011-2015	318,485
2016-2020	310,451
2021-2025	308,735
2026-2030	302,594
Total	<u>\$ 1,629,530</u>

PICAYUNE SCHOOL DISTRICT

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

(8) Subsequent Events.

On August 29, 2005, Hurricane Katrina passed through the State of Mississippi. Picayune 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.

(9) Prior Period Adjustments/Exhibits.

A summary of significant fund equity adjustments is as follows:

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

<u>Major Funds:</u>	<u>Explanation</u>	<u>Amount</u>
General Fund	To correct recording in proper fund	\$ (10,000)
Other Governmental Funds	To correct recording in proper fund	\$ 10,000
	Total	<u>\$ 0</u>

(10) 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.

(11) 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 Trustmark National Bank and Hancock Bank, has entered into such an agreement dated January 15, 2005.

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 October 16. 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.

<u>Year Ending June 30</u>	<u>Amount</u>
2006	\$ 80,690
2007	80,690
2008	80,690
2009	80,690
2010	80,690
2011-2015	403,450
2016-2020	193,100
Total	<u>\$ 1,000,000</u>

REQUIRED SUPPLEMENTARY INFORMATION

PICAYUNE SCHOOL DISTRICT
 Budgetary Comparison Schedule for the General Fund
 For the Year Ended June 30, 2005

Schedule I

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
	Original	Final		Positive (Negative)	
				Original to Final	Final to Actual
Revenues:					
Local sources	6,121,772	5,930,918	5,930,918	(190,854)	-
State sources	14,567,207	14,476,539	14,476,539	(90,668)	-
Federal sources	40,000	103,872	103,872	63,872	-
Total Revenues	20,728,979	20,511,329	20,511,329	(217,650)	-
Expenditures:					
Instruction	12,183,073	12,357,726	12,357,726	(174,653)	-
Support services	7,722,345	7,737,823	7,680,900	(15,478)	56,923
Debt service:					
Principal	860,000	851,937	851,937	8,063	-
Interest	9,754	19,023	19,023	(9,269)	-
Total Expenditures	20,775,172	20,966,509	20,909,586	(191,337)	56,923
Excess (deficiency) of revenues over expenditures	(46,193)	(455,180)	(398,257)	(408,987)	(56,923)
Other Financing Sources:					
Proceeds of loans		954,649	954,649	954,649	-
Insurance loss recoveries		45,384	45,384	45,384	-
Operating transfers in	3,485,000	4,042,795	4,042,795	557,795	-
Operating transfers out	(3,435,000)	(4,009,271)	(4,009,271)	(574,271)	-
Total Other Financing Sources (Uses)	50,000	1,033,557	1,033,557	983,557	-
Net change in fund balances	3,807	578,377	635,300	574,570	(56,923)
Fund Balances:					
July 1, 2004	2,485,000	725,686	725,686	(1,759,314)	-
Prior period adjustments		(10,000)	(10,000)	(10,000)	-
July 1, 2004, as restated	2,485,000	715,686	715,686	(1,769,314)	-
June 30, 2005	2,488,807	1,294,063	1,350,986	(1,194,744)	(56,923)

PICAYUNE SCHOOL DISTRICT

Notes to the Required Supplemental Information For the Year Ended June 30, 2005

Notes to the Required Supplementary Information

Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(2) Budget amendments and revisions.

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

SUPPLEMENTAL INFORMATION

PICAYUNE SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005

Schedule 2

<u>Federal Grantor / Pass-through Grantor / Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>		
Passed -through Mississippi Department of Education		
Non-cash assistance:		
Food donation	10.550	27,788
Child Nutrition Cluster:		
School breakfast program	10.553	340,748
National school lunch program	10.555	756,843
Total		1,097,591
Total U.S. Department of Agriculture		1,125,379
<u>U.S. Department of Labor</u>		
Passed through Mississippi Department of Education:		
Employment services and job training - pilot and demonstration programs	17.249	29,097
Total U.S. Department of Labor		29,097
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company		
The school and libraries program of the universal service fund	32.XXX	68,891
Total Federal Communications Commission		68,891
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	1,245,188
Vocational education - basic grants to states	84.048	72,812
Safe and drug - free schools and communities - state grants	84.186	44,886
Education for homeless children and youth	84.196	43,460
Fund for the improvement of education	84.215	740
Eisenhower professional development - state grants	84.281	250,929
State grants for innovative programs	84.298	295
Education technology state grants	84.318	258,498
Teacher quality enhancement grants	84.336	5,000
Transition to teaching	84.350	2,800
Rural education	84.358	57,637
Improving teacher quality - state grants	84.367	143,362
Grants for state assessments and related activities	84.369	212
Learn and serve America - school and community based programs	94.004	15,000
Total		2,140,819
Special education cluster:		
Special education - grants to states	84.027	642,081
Special education - preschool grants	84.173	17,650
Total		659,731
Total passed-through Mississippi Department of Education		2,800,550
Total U.S. Department of Education		2,800,550
<u>U.S. Department of Health and Human Services</u>		
Direct Program:		
Head Start	93.600	638,229
		638,229
Total for All Federal Awards		\$ 4,662,146

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 identification numbers to the school district.

Picayune School District
Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
For the Year Ended June 30, 2005

<u>Expenditures</u>	<u>Total</u>	<u>Instruction</u>	<u>Administrative</u>	<u>Other</u>
Salaries and fringe benefits	\$ 22,076,276	14,665,598	2,310,589	5,100,089
Other	9,099,059	1,149,159	501,610	7,448,290
Total	\$ 31,175,335	15,814,757	2,812,199	12,548,379
Total number of students *	3,654			
Cost per student \$	8,532	4,328	770	3,434

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); and Support Services - Business (2500s)

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

* include the number of students reported on the ADA report submission for month 9, which is the final submission for the fiscal year

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

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

Scotty McDaniel, CPA

MEMBER

Mississippi Society
of Certified Public
Accountants

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*

June 20, 2006

Superintendent and School Board
Picayune School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Picayune School District as of and for the year ended June 30, 2005, which collectively comprise the Picayune School District's basic financial statements and have issued our report thereon dated June 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the school district's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operations that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our opinion, could adversely affect the school district's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the Schedule of Findings and Questioned Costs as Finding 05-1.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions and, accordingly, would not also disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described in the finding referred to above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The

results of our tests did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

McDaniel CPA Firm

Scotty McDaniel, CPA

MEMBER

Mississippi Society
of Certified Public
Accountants

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

June 20, 2006

Superintendent and School Board
Picayune School District

Compliance

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

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

In our opinion, Picayune 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 Picayune School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the school district's internal control over compliance with requirements that could have a direct and material effect on a major federal program

in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did not note any matters involving internal control over compliance and its operation that we consider to be a material weakness.

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.

McDaniel CPA Firm

McDaniel CPA Firm
Certified Public Accountant / Financial Consultant

Scotty McDaniel, CPA

MEMBER

Mississippi Society
of Certified Public
Accountants

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

June 20, 2006

Superintendent and School Board
Picayune School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Picayune School District as of and for the year ended June 30, 2005, which collectively comprise Picayune School District's basic financial statements and have issued our report thereon dated June 20, 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 fund". 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 state laws and regulations. However, providing an opinion on compliance with state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$ 85,860 of classroom supply funds carried over from previous years.

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

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

McDaniel CPA Firm

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

Section I: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

4 .	Type of auditor's report issued on compliance for major federal programs:	unqualified
5 .	Internal Control over major programs:	
	a. Material weakness(es) identified?	no
	b. Reportable condition(s) identified that are not considered to be material weaknesses?	no
6 .	Any audit finding(s) reported as required by section ____ .510(a) of Circular A-133?	no
7 .	Federal programs identified as major programs:	
	a. Title I - grants to local educational agencies	
	CFDA #: 84.010	
	b. Head Start	
	CFDA #: 93.600	
	c. Special education cluster	
	CFDA #: 84.027	
	CFDA #: 84.173	
8 .	The dollar threshold used to distinguish between type A and type B programs:	\$ 300,000
9 .	Auditee qualified as a low-risk auditee?	yes
10 .	Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in section ____ .315(b) of OMB Circular A-133?	no

Section 2: Financial Statement Findings

Reportable Condition Not Considered to be a Material Weakness.

05-1. Finding

During our review of the district's financial statements we noted that a debit balance in a liability account, deferred revenue, in the amount \$ 12,565. This debit balance represents charges for school lunches by students.

Recommendation

The district should implement policies and procedures to insure that lunches charged by students are collected and deposited in a timely manner.

Section 3: Federal Award Findings and Questioned Costs

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

AUDITEE'S CORRECTIVE ACTION PLAN

Picayune School District

706 Goodyear Boulevard
Picayune, Mississippi 39466
Tel: 601-798-3230
Fax: 601-798-1742

CORRECTIVE ACTION PLAN

July 10, 2006

McDaniel CPA Firm
35 Corner Oaks Drive
Hattiesburg, MS 39402

Gentlemen:

Picayune School District respectfully submits the following corrective action plan for the year ended June 30, 2005.

The finding from the Schedule of Findings and Questioned Costs are discussed below. The finding is numbered consistently with the number assigned in the schedule.

Section 2: Financial Statement Findings

Reportable conditions not considered to be material weaknesses:

05-1. Corrective Action Planned:

1. Lisa Penton, Director of Finance 601-798-3230.
2. Corrective Action Planned:
The district will implement procedures to properly account for lunches charged.
3. Anticipated Completion Date:
The implementation of procedures is immediate and on going.